

CHANGE REQUEST COVER SHEET

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Title: Award Fee Guide Changes

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Policy OR Guidance: Guidance

Section/Text Location Affected: T3.2.4.2D.2

Summary of Change: Adjustment of several references to cost control as an evaluation factor

Reason for Change: Clarification as to when cost control must be an award fee evaluation factor

Development, Review, and/or Concurrence: Acquisition Policy; Procurement Legal; and Contracting Organizations at HQ, the Centers, and Service Areas.

Target Audience: Contracting Workforce and Program Offices

Potential Links within FAST for the Change: None

Briefing Planned: No

ASAG Responsibilities: None

Potential Links within FAST for the Change: None

Links for New/Modified Forms (or) Documents (LINK 1) [null](#)

Links for New/Modified Forms (or) Documents (LINK 2) [null](#)

Links for New/Modified Forms (or) Documents (LINK 3) [null](#)

SECTIONS EDITED:

Procurement Guidance:

T3.2.4 - Types of Contracts

Appendices

Section 2 : Appendix - Award Fee [[Old Content](#)][[New Content](#)] [[RedLine Content](#)]

SECTIONS EDITED:

Section 2 : Appendix - Award Fee

Old Content: Procurement Guidance:

T3.2.4 - Types of Contracts

Appendices

Section 2 : Appendix - Award Fee

1. Introduction

This appendix includes additional explanation of award-fee. It focuses on award fee under cost-reimbursement contracts, but the general concepts apply to award fee on other types of contracts.

An award fee contract provides a separate amount that a contractor may earn, in whole or in part, based on FAA's periodic evaluations of its performance. Award fee is intended to reward contractor performance, considering both the levels of performance and conditions under which the contractor achieved those levels. Award fee gives FAA flexibility to judgmentally evaluate contractor performance, and to quickly change evaluation plans to reflect changes in FAA management emphasis or concern.

2. Award Fee Provisions

A cost-plus-award-fee contract includes an estimated cost, a base fee, an award fee, and an evaluation and fee payment plan. The contract also includes a clause specifying that award fee determinations are made unilaterally by the designated Fee Determination Official (FDO), according to the approved evaluation plan, and determinations are not subject to appeal under the Disputes clause.

3. Administrative Cost Versus Benefit

Award fee requires added administrative activities. Tailoring an award fee approach avoids an administrative burden disproportionate to any expected improvements in a contractor's performance and overall project management. When deciding whether to use award fee, the Contracting Officer (CO) should consider administrative cost versus expected benefit. Administrative cost includes staff time to monitor, evaluate, document, brief and otherwise implement award fee. Cost drivers include frequency of evaluation periods, and number of people involved in administering award fee. Benefits, which may be intangible and difficult to estimate, could include dollars saved by enhanced technical capability.

4. Fees

The total amount of base fee (if any) and award fee is established at contract award. The sum of base fee and award fee should reflect the overall character, difficulty, and uncertainty of the effort.

Base fee is a fixed amount, similar to fixed fee, that a contractor earns for basic risk of contract performance. Base fee is optional; FAA may decide instead to reward contractor performance solely through award fee. When base fee is used, the amount should be limited so that it does not undermine the effectiveness of award fee. Base fee payments are generally made as part of the regular cost voucher process.

Award fee is a separate amount sufficient enough to reward the contractor for all levels *above* minimally acceptable performance. Actual award fee earned by the contractor is determined by FAA's assessment of performance against criteria included in an evaluation plan. The contractor can earn any amount of available award fee, from none to all. The contractor does not earn any award fee for less than satisfactory performance. Award fee available, but not earned, for an evaluation period is forfeited by the contractor and cannot carry forward to subsequent evaluation periods.

When establishing award fee, the CO may consider weighted guidelines profit/fee analysis factors, such as contractor effort, complexity of the effort, labor and indirect costs, cost risk, and other factors as applicable. Award fee should not be excessive, but should be large enough to adequately motivate contractor performance.

One of the most difficult situations is a hybrid contract, where there might be multiple performance incentives in addition to an award fee. The amounts allocated to each fee area must be sufficient to adequately motivate and reward a contractor to excel in each. There should be a balance in which no fee area is either so insignificant that it offers little reward or so large that it overshadows all other areas. The number of factors being incentivized also plays a part. When too many factors are incentivized, the prospect increases of any one item being too small (and thus overlooked), or the incentives being (or perceived as being) inconsistent and working at cross purposes. Using too many factors can also be confusing and increase the administrative burden.

5. Combination with Other Contract Types

A hybrid contract may be appropriate when certain aspects of a contract performance are best suited to objective measurement and other portions are suited to subjective measurement. For example, an incentive fee might be used for cost control and award fee to reward technical performance. Given the interrelationship between contract costs and the other critical performance elements, the CO should ensure that combinations of objective cost control incentives and subjective/objective award fee determinations do not result in a contractor making trade-off decisions inconsistent with FAA objectives and performance priorities. Poorly structured incentives can result in increased costs with little or no improvement in performance or cost savings with a corresponding loss in performance. No performance element should be

incentivized more than once. If a separate incentive is used for cost, then cost control cannot also be rewarded in the award fee. Similarly, performance elements should be carefully structured and defined to avoid overlap, and to preclude downgrading in multiple elements for a single type of poor performance. When using hybrid contracts, financial data must be segregated to allow different cost and fee payments based on each type of contract and to provide specific management information and accountability for the work under the different types of contract. Because of the complexity in structuring and administering a hybrid contract, the CO should be reasonably sure that increased administrative costs will be offset by potential benefit.

6. Organization and Administration

The most effective organizational and administrative approach differs with each situation. The overall objective is to not impose an unreasonable administrative burden, considering the value and complexity of the contract. The following are basic guidelines:

- a. Avoid creating too many organizational layers. Excessive layers contribute to unnecessary paperwork, delays in turnaround time, and inordinate staffing demands.
- b. At the same time, the CO and project manager's assessments should be reviewed by higher level management officials who have a broader perspective and are not involved in the daily interaction with the contractor. Evaluations must be based on contractually required performance.
- c. Tailor performance evaluation plans to the specific situation, but do not reinvent the wheel. The tailored, case-by-case application of successfully used procedures and practices generally works best.
- d. The objective is to evaluate performance and not micromanage it. The Government tells the contractor what results are expected and important. It then evaluates and rewards the contractor as appropriate for achieving or exceeding the desired results. Communication with contractor personnel about performance should not lead to Government direction in a manner that compromises the contractor's responsibility or ability to manage under the contract.

7. Organizational Levels and Functions

The following basic organizational structure is appropriate for most situations. This structure and responsibilities may be modified to fit the circumstance:

Fee Determination Official

Performance Evaluation Board (with chairperson)

Performance Evaluation Coordinators (*optional*)

Performance Monitors

Fee Determination Official (FDO) -The FDO is organizationally senior to the Performance Evaluation Board (PEB) members. The FDO is identified by position title, and not name, in the award fee evaluation plan. This establishes the level of the award fee determinations, while eliminating the need to modify the contract if the incumbent FDO changes. The FDO's responsibilities include:

- a. Establishing the PEB.
- b. Approving the award fee evaluation plan and any changes required during performance, unless the FDO delegates responsibility for changes to the plan to the PEB.
- c. Considering the PEB report for each evaluation period and discussing it with the PEB Chair and, if appropriate, with others such as the contractor.
- d. Determining the amount of award fee earned and payable for each evaluation period. In the cases where all evaluation ratings are interim except the last one, determining the amount of interim award fee to be paid for each evaluation period. The FDO ensures the amount and percentage of award fee earned accurately reflects the contractor's performance.
- e. Justifying and documenting for the contract file any variances between the PEB recommendation and FDO determination.
- f. Signing the award fee determination letter specifying the amount of award fee earned and the basis for that determination for the evaluation period.

Performance Evaluation Board (PEB) - The PEB is established by the FDO. The PEB brings a broader management perspective to the evaluation process than at the monitor level (and PEB members should be at a higher management level than performance monitors). The qualifications of PEB members will vary depending on the nature, dollar value and complexity of the contract. The PEB should include at least members with overall responsibility for the technical and contracting aspects of contractor performance. Board members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews. The PEB should be established in sufficient time so it can develop (or oversee development) and distribute an approved evaluation plan *before* the start of the first evaluation period. PEB responsibilities include:

- a. Conducting ongoing evaluations of contractor performance based on Performance Monitor reports and additional performance information as may be obtained from the contractor and other sources. The PEB evaluates contractor's performance according to the standards and criteria stated in the performance evaluation plan.
- b. Submitting a PEB report to the FDO covering the Board's findings and recommendations for an award fee amount for each evaluation period.
- c. Recommending appropriate changes in the performance evaluation plan for approval by the FDO (if plan changes are not delegated to the PEB), if any.

Performance Evaluation Board (PEB) Chair - The FDO designates one PEB member as the Chair. The functions of a PEB Chair include:

- a. Scheduling PEB meetings, controlling attendance and chairing the meetings.
- b. Recommending appointment of nonvoting members to assist the PEB perform its functions, e.g., a recording secretary.
- c. Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance.
- d. Requesting and obtaining performance information from other personnel involved in observing contractor performance, as appropriate.
- e. Obtaining help from other personnel to consult with the PEB, as needed.
- f. Preparing and obtaining approval of the PEB report and other documentation such as PEB minutes.
- g. Ensuring the timeliness of award fee evaluations.

Performance Monitors - Monitors provide continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often daily oversight is the foundation of the award fee evaluation process. Performance monitors are specialists familiar with their assigned areas of cognizance; their monitor duties generally are in addition to, or an extension of, their regular responsibilities. In performing their duties, monitors should maintain ongoing communication with their contractor counterparts, conduct assessments in an open, objective and cooperative spirit, and emphasize applicable negative and positive performance elements. Monitors are designated by the PEB Chair. Responsibilities of Performance Monitors include:

- a. Monitoring (not directing), evaluating and assessing contractor performance in their assigned areas. This activity is conducted according to contract requirements and the award fee plan so that evaluations are fair and accurate.
- b. Periodically preparing a Performance Monitor report for the PEB and, if necessary, providing verbal presentations as well.
- c. Recommending any needed changes in the performance evaluation plan for consideration by the PEB and the FDO.

Performance Evaluation Coordinator (PEC) – In certain high dollar value, complex efforts, the following organizational level also might be used. Performance Evaluation Coordinators provide centralized direction to the various performance monitors and consolidate the findings of the performance monitors for review at the next highest evaluation level. The PEC level should be used only when a very large number of performance monitors are involved in the evaluation

process. Each PEC (appointed by the PEB Chair, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or project management. PEC duties include:

- a. Furnishing instructions to performance monitors in their assigned areas.
- b. Ensuring that the contractor is promptly notified whenever a problem is identified requiring immediate contractor attention (However, PECs should not give technical direction unless they are designated contracting officer's representatives (CORs) and their contracts contain a technical direction clause.).
- c. Coordinating, consolidating and analyzing data submitted by their performance monitors and preparing a concisely written PEC report for presentation to the next highest evaluation level for each evaluation period.

8. Training

All personnel involved in award fee administration should be trained on the process. Training should begin before or immediately after contract award so that personnel understand the award-fee process before beginning their duties. Training should cover the performance evaluation plan, roles and responsibilities, documentation requirements, evaluation techniques, and other areas such as:

- What is an award fee contract
- What is being evaluated
- How will information be gathered; what techniques will be used (e.g., inspection, sampling of work, observation, review of reports or correspondence, or customer surveys);
- When or how often will information be obtained (e.g., daily, weekly or monthly);
- How will performance monitors secure information from functional specialists to cover areas in which the monitors may not be personally involved; and
- Evaluation scoring processes and the need for consistency between scoring and evaluation summaries.

9. Steps in the Evaluation Process

Assuming the basic three-level organizational structure, the sequence of events leading to an award fee determination is:

- a. A certain number of days before the period starts (specified in the performance evaluation plan), the contractor is provided with any changes to the performance evaluation plan. In addition, the PEB may determine that it wants to highlight a performance area that the contractor should pay particular emphasis to during the period. For instance, an area of performance during the period may be of particular risk to the program. The PEB may want to focus the contractor's attention on this area of risk by highlighting it. This may be done by issuing a

"letter of emphasis" to the contractor a certain number of days prior to the start of the evaluation period, if specified in the performance evaluation plan.

b. During the course of the evaluation period, performance monitors track contractor performance. Interim (mid-term) evaluations may be used to identify strengths and weaknesses in the contractor's performance during the period being evaluated. Interim evaluations are documented and should involve the FDO.

c. At the end of the period, the performance monitors assess and document the contractor's performance, and report to the PEB.

d. The PEB considers the performance monitors' reports and any other pertinent information, including information provided by the contractor during the evaluation period, and prepares a report for the FDO with findings and recommendations.

e. The contractor may be allowed to comment on its performance during the evaluation period, using one or more of the following methods:

- The contractor may provide a written or oral self-assessment of its performance for consideration by the PEB.
- The contractor may be provided a copy of the PEB's draft findings and recommendations and may be allowed to identify factual errors. Any errors identified by the contractor would be addressed by the PEB in its final report. The contractor's draft recommendation is not a subject for negotiation; the PEB should not engage in discussions with the contractor.
- The contractor may be provided a copy of the final PEB report at the same time as the PEB submits it to the FDO. Contractor may submit comments directly to the FDO for consideration.

f. The FDO meets with the PEB to discuss the PEB's report. The FDO then makes a final determination in writing for the amount of award fee earned and to be paid. The FDO provides the determination to the CO, who sends it to the contractor. The FDO's rating is provided to the contractor as quickly as possible after the end of the period being evaluated. The FDO and PEB should provide a debriefing to the contractor after the rating has been issued.

g. Payment to the contractor should be made as soon as possible after the end of the period. The contractor submits a separate voucher for award fee to be paid.

10. Performance Evaluation Plan (PEP)

The performance evaluation plan (PEP) includes:

- Organizational structure for award fee administration
- Method for determining award fee, including evaluation criteria and periods

- Method for implementing any changes in plan coverage

The plan should be tailored to the particular situation and should:

- Focus the contractor on performance areas of greatest importance to motivate it to make the best possible use of company resources to improve performance;
- Provide for evaluations of contractor performance levels, taking into consideration contributing circumstances and contractor resourcefulness;
- Clearly communicate evaluation procedures and provide for effective, two-way communication between the contractor and the Government personnel responsible for evaluating performance and making award fee determinations;
- Provide for an equitable and timely evaluation process;
- Establish an effective organizational structure, commensurate with the complexity and dollar value of the particular procurement, to administer the award fee provisions; and
- Be kept as simple as feasible; the simpler the plan, the more effective it is likely to be.

11. Changing the Performance Evaluation Plan

The performance evaluation plan is usually not included in the contract. This gives FAA the right to unilaterally alter the plan to reflect any changes in management emphasis. If the plan is made a part of the contract, then FAA's ability to unilaterally change the plan must be specifically stated in the contract. Unilateral changes may be made to the plan if the contractor is provided written notification by the CO before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties. All significant changes to the award-fee plan should be coordinated with the PEB and approved by the FDO. Examples of significant changes include revising evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing PEB membership, and revising the distribution of the award-fee dollars. It is important that the provision for unilateral changes be clearly described in the contract. The fact that the plan can be unilaterally changed does not give the FAA the right to unilaterally change other award fee provisions or other terms of the contract, absent contract language allowing it to do so.

The Appendix to this guidance includes a sample PEP.

12. Performance Evaluation Factors

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. However, those functions selected should be balanced so that a contractor, when making trade-offs between evaluation factors, assigns the proper importance to all of the critical functions identified. For example, the plan should emphasize a combination of technical performance and cost considerations, because an evaluation plan limited to technical performance (alone) might result in increased costs out of proportion to any benefits gained.

Spreading the potential award fee over a large number of performance evaluation factors dilutes emphasis. Instead, broad performance factors should be selected, such as technical, project

management and cost control, supplemented by a limited number of subfactors describing significant evaluation elements over which the contractor has effective management control. Prior experience can be helpful in identifying those key problem or improvement areas that should be subject to award fee evaluations.

Some basic areas of performance need to be evaluated and rewarded on every contract. Other areas are critical only in some instances. Cost control will always be included as an evaluation factor, if there isn't a separate cost incentive in the contract. In general, controlling the cost of the system/equipment or service being provided, its quality (technical merit, design innovation, reliability, etc.), and its timely delivery will always be important-- although their relative importance and the measure of what constitutes good performance may vary. The relative importance of the factors and the method of evaluating a contractor should be tailored to fit the needs of individual procurement. For example, providing an item on time is generally critical to the contract. However, earlier delivery might also be of benefit to the Government and worth incentivizing. On the other hand, early deliveries might be of no benefit, or even cost the Government money if companion technologies are not yet available resulting in increased costs to the Government for storage.

The evaluation factors used in award fee should not be standardized. Rigid standardization tends to generate evaluation plans that are either too broad or include factors inapplicable to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. It is preferable to tailor performance evaluation plans and factors to fit the circumstances. As contract work progresses from one evaluation period into the next, the relative importance of specific performance factors may change.

Depending on the situation, performance evaluation factors may include outcomes, outputs, inputs or a combination of the three. An outcome factor is an assessment of the results of an activity compared to its intended purpose. Outcome-based factors are the least administratively burdensome type of performance evaluation factor, and should provide the best indicator of overall success. Outcome-based factors should be the first type of evaluation factor considered, and are often ideal for non-routine efforts.

An output factor is the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Output factors may be more desirable for routine efforts. When output factors are used, care should be taken to ensure that there is a logical connection between the reported measures and the program's mission, goals, and objectives. Examples of outcome and output factors:

Outcome: Safely install and ensure the lighting systems are certified and operational to satisfy needs.

Output(s):

- Deliver lighting systems to airports no later than July 15, 2008.
- Assemble and certify lights at each airport not later than December 15, 2008.
- Install and ensure lighting compatibility at each airport by January 5, 2009.

Outcome: Ensure program spare parts are maintained at a level sufficient to provide a 6-month supply at normal monthly draw down.

Output: Store a minimum of 1,000 program spare parts.

Input factors refer to intermediate processes, procedures, actions or techniques that are key elements influencing successful contract performance. These may include testing and other engineering processes and techniques, quality assurance and maintenance procedures, subcontracting plans, purchasing department management, and inventory, work assignment and budgetary controls.

While it is sometimes valuable to consider input and output factors when evaluating contractor performance, it is preferred to use outcome factors when feasible since they are better indicators of success relative to the desired result. For example, in the case of service contracts where performance is demonstrated and measurable in each evaluation period, input factors may be of value in building a historical database, but may be of little or no value in the evaluation process. Accomplishments, such as achieving small and small disadvantaged subcontracting goals, are what are important, as opposed to efforts expended. In other contracts, however, where the quality of performance cannot be determined with certainty until the end of the contract, input factors can be useful indicators of how well the contractor is achieving its ultimate performance objective. However, a heavy emphasis on input factors, while meant to provide positive motivation to the contractor in certain areas of performance, may in some cases cause the contractor to divert its attention and focus from the overall output or outcome desired. Input factors are not always true indicators of the contractor's ultimate performance and so should be relied on with caution.

Some examples of performance evaluation factors, subfactors and criteria are shown below. They do not cover all possibilities, but illustrate some of the key performance areas that can be selected as evaluation factors.

Technical Performance - Accomplishment achieved in the areas of:

- Design: Approach in design concepts, analysis, detailed execution and low cost design and manufacturing. Design of test specimens, models and prototypes.
- Development: Conception/execution of manufacturing processes, test plans and techniques. Effectiveness of proposed hardware changes.
- Quality: Quality assurance, e.g., appearance, thoroughness and accuracy, inspections, customer surveys.
- Technical: Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, and performance.
- Processing Documentation: Timely and efficient preparation, implementation and closeout.
- Facilities/GFE: Operation and maintenance of assigned facilities and Government Furnished Equipment.

- **Schedule:** Meeting key program milestones and contractual delivery dates; anticipating and resolving problems; recovery from delays; reaction time and appropriateness of response to changes.
- **Safety:** Providing a safe work environment; conducting annual inspections of all facilities; maintaining accident/incident files; timely reporting of mishaps; providing safety training for all personnel.
- **Information Management:** Ability of computer system to provide adequate, timely and cost effective support; meets security requirements; management information systems ensures accurate, relevant and timely information.
- **Material Management:** Efficient and effective processing of requisitions, with emphasis on priority requisitions; responsiveness to changes in usage rates.

Project Management - Accomplishment achieved in the areas of:

- **Program Planning/Organization/Management:** Assignment and utilization of personnel; recognition of critical problem areas; cooperation and effective working relationships with other contractors and Government personnel to ensure integrated operation efficiency; support to interface activities; technology utilization; effective use of resources; labor relations; planning, organizing and managing all program elements; management actions to achieve and sustain a high level of productivity; response to emergencies and other unexpected situations.
- **Compliance with contract provisions:** Effectiveness of property and material control, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety and security.
- **Effectiveness in meeting or exceeding small business and small disadvantaged business subcontracting goals.**
- **Subcontracting:** Subcontract direction and coordination. Purchase order and subcontractor administration.
- **Timely and accurate financial management reporting.**

Cost Control – Cost control is generally not a basis for an award fee. However, for the purposes of performance evaluation factors, the acquisition team may consider the contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) through:

- Control of indirect and overtime costs.
- Control of direct labor costs.
- Economies in use of personnel, energy, materials, computer resources, facilities, etc.
- Cost reductions through use of cost savings programs, cost avoidance programs, alternate designs and process methods, etc.
- "Make versus buy" program decisions.
- Reduced purchasing costs through increased use of competition, material inspection, etc.

The predominant consideration when evaluating cost control should be an objective measurement of the contractor's performance against the estimated cost of the contract, including the cost of undefinitized contract actions when appropriate. The estimated cost baseline should be adjusted to reflect cost increases or decreases associated with changes in Government

requirements or funding schedules which are outside the contractor's control. In rare circumstances, contract costs might increase for reasons outside the contractor's control and for which the contractor is not entitled to an equitable adjustment, such as weather-related. Such situations should be taken into consideration when evaluating contractor cost control. In the case of contracts for services where contractor performance is consistent and complete within each evaluation period and does not carry over into succeeding periods, negotiated estimated cost can generally be apportioned among the evaluation periods. Cost control for each evaluation period can then be measured against that period's share of the estimated costs. However, where contractor performance cannot be ascertained until the end of the contract (such as contracts for R&D) and cost expenditures can vary significantly from one evaluation period to the next, it makes more sense to evaluate interim contractor cost control against a cumulative expenditure profile that reflects the estimated cost.

13. Quantitative and Qualitative Standards

Once evaluation factors are selected, standards or criteria are developed for measuring contractor performance and assessing the amount of award fee earned.

Quantitative or objective performance measurement standards are based on well-defined parameters for measuring performance. They include customer surveys, inspection reports and test results. Quantitative measures should be used whenever the given performance can be precisely or finitely measured. Sufficient information or experience must be available to permit the identification of realistic standards against which quantitative measurements may be compared.

Unlike the predetermined targets and fee adjustment formulas used in incentive fee type contracts, any comparison of contractor performance against quantitative standards in the award fee environment will need to be tempered by a qualitative evaluation of existing circumstances. Quantitative measurements are not a substitute for judgment. Keep in mind that any reasonable assessment of effectiveness requires an evaluation process encompassing both performance levels and the conditions under which those levels were achieved. To be realistic, any standard (or range of acceptable performance levels) should reflect the nature and difficulty of the work involved.

Qualitative or subjective performance standards rely on evaluator's opinions and impressions of performance quality. Qualitative assessments must be as informed as possible and not rely on personal bias or a purely intuitive feeling. Some examples are:

- **Staffing:** Optimal allocation of resources; adequacy of staffing; qualified and trained personnel; identification and effective handling of employee morale problems; etc.
- **Planning:** Adequate, quality, innovative, self-initiated and timely planning of activities; effective utilization of personnel; quality of responses; etc.

Another example of a qualitative standard is a "quality review" such as a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. Note that narrative support for questionnaire answers is required.

Where feasible, the quantitative or objective measures are preferred over qualitative or subjective ones. The greater the ability to identify and quantify the facts considered in arriving at a judgmental assessment, the more credible that assessment is likely to be (and the easier it will be to prepare the supporting documentation required).

14. Weighting Evaluation Factors

In addition to identifying how performance will be evaluated and measured, the detailed performance evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors and subfactors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important" or through percentage weights. When percentages are used, the plan should state that they are for the sole purpose of communicating relative priorities, and do not imply an arithmetical precision to the judgmental determinations of overall performance quality and the amount of award fee earned.

Cost control should always be a substantial factor. When percentage weights are used, cost control could be at least 25 percent of the total award fee. When adjectives or narratives are used in lieu of explicit weights, cost control should be a substantial factor. No other factor should be less than 10 percent. This ensures that the factors are balanced and, when making trade-offs, the contractor assigns the proper importance to all factors.

The methodology used to establish percentage weights is illustrated in the following example:

Example:

First, list the primary evaluation factors in descending order of importance and assign a percentage weight to each factor starting with the most important. Assign the least important factor no less than 10 percent (unless the least important factor is cost control, which would be assigned a minimum of 25 percent). All assigned weightings for primary evaluation factors must total 100 percent. Round all numbers off to the nearest whole number to avoid giving the impression that the procedure is a precise one.

Next, assign percentage weights to the subfactors supporting each of the primary evaluation factors such that the total of the subfactor weights for each performance factor totals the assigned weight for that factor as shown in the example below. The actual factors and subfactors used as well as the weights assigned in any given contract may be different from those shown in the example. For instance, indirect cost control, subcontract costs, other direct costs, etc. should be evaluated when they are significant elements of cost.

Factors/Subfactors	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Mgmt.	32%

Planning		26%
Subcontracts		6%
Cost Control	26%	
Labor Cost Control		15%
Overhead Cost Control		11%
Total	100%	

15. Length of Evaluation Periods

Award fee evaluation periods should generally be between three to six months. Too short of an evaluation period can be administratively burdensome and lead to hasty or late evaluations which result in late fee determinations. Alternatively, evaluation periods may be tied to completing milestones. When linking evaluation periods to milestones, ensure evaluations do not occur at infrequent intervals or become subject to lengthy slippage.

16. Allocation of Award Fee

After the total award fee amount is established, the total pool is allocated over the award fee evaluation periods. For contracts where each evaluation is final, the allocation of award fee determines its distribution for final payment purposes. For other contracts, where all evaluations (and payments) are interim, except the final evaluation, award fee is allocated among the evaluation periods solely for the purpose of making interim payments against the final evaluation. That final evaluation will determine the amount of total award fee actually earned by the contractor and will supersede any interim evaluations and payments made.

The distribution of the award fee pool depends on the circumstances. Contractor expenditure profiles may be considered. The total may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is a greater risk or critical milestones occur during specific evaluation periods, a larger portion of the pool may be distributed to those periods. This permits the Government to place greater emphasis on those evaluation periods. For example, if a contract has a short initial evaluation period for the contractor to become familiar with the work, the initial period of performance may have a smaller allocation while the remaining pool is divided equally among the remaining evaluation periods. If the schedule for a significant event changes, any potential award fee amount associated with that event must be reallocated accordingly for interim payment purposes.

The following example illustrates an unequal allocation of award fee among the four performance periods, reflecting different degrees of emphasis.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Total</u>
Allocation (%)	10%	26%	40%	24%	100%
Allocation (\$)	\$50,000	\$130,000	\$200,000	\$120,000	\$500,000

17. Evaluation of Delivery or Task Order Contracts

A delivery or task order contract may provide for orders with specific requirements that are independent of any other orders' requirements and that have separate, distinct sources of funding. For such orders, an award fee amount could be allocated to each individual order along with the estimated cost. Contractor performance on each order would be evaluated against the award fee criteria on a task-by-task basis. There are instances where the Government wants to motivate the contractor's performance at the contract level versus each individual order. This condition may exist when the overriding objective is not how each individual order is executed, but how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. For example, it may not be cost effective to evaluate contractor performance on a task order basis, or when unknown/undefined requirements may materialize during the contract. An unknown requirement may arise that has a higher priority than an existing order. The primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (funding, staffing, etc.) to ensure the optimal capability is achieved at the system performance level. Therefore, the ultimate measure of success is judged as meeting the overall contract objectives and not necessarily on the performance of a single order. In this case it is in the Government's best interest to incentives the contractor to focus its efforts and perspective on overall contract performance versus the individual orders. This does not preclude management of individual orders. To ensure that there is no confusion about how the contractor's performance will be evaluated, the award fee plan must clearly state whether the evaluation criteria are applicable at the contract or individual order level.

18. Interim and Final Evaluations

The decision about whether to conduct interim or final evaluations depends on the circumstance. In service contracts, the contract deliverable is a service and contractor performance is measurable at each evaluation period. Performance is usually not cumulative and its quality cannot be improved or reduced by future performance. For that reason, in service contracts, evaluations should be final and unearned award fee cannot be "rolled over" into subsequent evaluation periods or ever retroactively "taken back." On other contracts such as study, design or hardware, where the true quality of contractor performance cannot be measured until the end of the contract, the contract deliverable is an end item. Contractor performance leading up to delivery of the end item is an indication of whether and how well it will produce the end item, but it is not the end item itself. Since the actual quality of the end item cannot be determined until the end of the contract when it is delivered, the last evaluation should be final. All other evaluations and ratings would be interim.

At the end of the contract, the contractor's total performance is evaluated against the performance evaluation plan to determine total earned award fee. That final rating supersedes all interim

ratings. It is not the average of the interim ratings. Instead, it reflects the contractor's position at the end of the contract rather than its interim progress toward that position. For example, how well a contractor has controlled costs can only be determined at the end of the contract when the contractor is evaluated against its final cost position. Whether the contractor was overrunning or underrunning the contract estimated cost at various points in time is irrelevant. The contractor's success is measured against the end result. Likewise, the contractor's ability to meet the contract schedule is determined when the hardware is delivered and accepted by the Government. Whether the contractor was behind or ahead of schedule during the course of the contract is not relevant in the final evaluation. The same thing is true of the other evaluation factors and subfactors.

Any significant events that contributed over the course of the contract to the contractor's position (such as delays in receipt of Government furnished equipment), should be considered in the final award fee determination. Those events should be examined as they relate to the final contract outcome and not to the individual evaluation periods in which they occurred.

19. Grading and Scoring Contractor Performance

Grading and scoring methods are used to translate evaluation findings into recommended award fee amounts or ranges. The purpose is to help the FDO decide the amount of award fee earned. These methods are evaluation tools and are not a substitute for judgment in the award fee determination process. The decision process cannot be reduced to a mathematical formula or methodology. Either a weighted or nonweighted process can be used to evaluate performance.

One method is for evaluators to start from the satisfactory performance level and adjust the scores upwards or downwards, depending on the contractor's performance for the period. A rating table may be used as a guide. Another method is for evaluators to use "blind" evaluation sheets where they are asked to rate different criteria using numbers based on the adjectival ratings. The weights that will eventually be applied to their ratings do not appear on the sheets. This approach relieves to some extent the pressure placed on the evaluators by contractor employees.

As a general guideline, a contractor which satisfactorily meets its contractual commitment will fall into the "good" (71-80) range. To earn an "excellent" score (91-100), a contractor must provide exceptional performance--a combination of excellent cost, schedule and technical management. Some general considerations in the development of a grading and scoring methodology are as follows:

- When Government actions impact contractor performance either positively or negatively, e.g., changes in funding allocation or increased emphasis on certain technical requirements which require the contractor to make unexpected and extensive tradeoffs with other technical requirements, those actions should be considered in the scoring and grading process.
- The methodology should be kept as clear and simple as possible. In particular, the situation where specially tailored evaluation factors are force-fit to a "standard" grading table or scoring formula should be avoided.

- The maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available. Although a reasonable opportunity generally does not mean absolute perfection in all possible performance areas, the contractor's performance should be outstanding in virtually all areas. On the other hand, providing a contractor the maximum fee on every contract, does not adequately address the issues of risk and effort.
- Documentation of assigned performance values is required in support of award fee recommendations and computations.

20. Award Fee Conversion Table

An award-fee conversion table may be used to translates overall evaluation scores (i.e., numerical performance points) into the earned award-fee amount. This conversion may be linear (e.g., direct conversion of evaluation points to percentage of award fee earned) or non-linear (e.g., a formula to translate performance points to award fee earned). Use of a conversion table does not remove the element of judgment from the award-fee process. Regardless of the method used, zero award fee will be earned for an overall unsatisfactory performance.

The following rating table may be used as a guide for award fee. Earned award fee (or interim award fee amounts in the case of interim evaluations) is calculated by applying the total numerical score to the award fee pool. For example, a numerical score of 85 yields an award fee of 85 percent of the award fee pool available for that evaluation period. The table below lists the award fee evaluation adjectival ratings with their corresponding score ranges. In addition, a narrative description is also provided to assist the PEB in applying the ratings. Criteria for evaluation factors and subfactors should reflect the table.

Adjective Rating	Range of Performance Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements ; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not

		substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards than in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

No fee will be paid when the total evaluation score is less than 61. In addition, any factor that receives a score of less than 61 for "poor/unsatisfactory" performance will not be rewarded and converted to a factor score of zero. Such zeroing-out should not be done at the subfactor level.

21. Scoring of Cost Control

Cost control should be a substantial factor in any performance evaluation plan, except when a fixed-price incentive or cost plus incentive fee contract is used. The contractor's success in controlling costs must be measured against contract estimated costs, and not against budgetary or operating plan costs. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

- a. Whenever there is a significant cost overrun that was within its control, a contractor should be given a score of zero. If the overrun is insignificant, a higher score may be given. The reasons for the overrun and the contractor's efforts to control or mitigate the overrun should be considered in the evaluation.
- b. Cost underruns within the contractor's control should normally be rewarded. However, the extent to which an underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other award fee evaluation factors. Contractors should not be rewarded for excelling in cost control to the detriment of other important performance factors. For that reason, whether a cost underrun is rewarded in the evaluation process and, if so, the degree to which it is rewarded depends, not only on the size of the underrun, but also on how well the contractor is performing overall in the other evaluation areas.
- c. When the contractor achieves the negotiated estimated cost of the contract, it should not receive the maximum score for cost control. The maximum score for cost control should only be awarded for achieving an underrun. Some lesser score will be assigned, reflecting the degree to which the contractor has prudently managed costs while meeting contract requirements.

22. Example - Calculating Earned Fee

The following example illustrates how evaluation scores for weighted factors and subfactors are calculated to arrive at a total award fee recommendation. Again, keep in mind that the use of weighted factors to calculate an award fee amount is an evaluation aid; the result does not represent a required award fee amount.

a. Background: This CPAF contract covers design and verification testing of hardware. The contractor is also required to deliver eight production items. The total estimated cost and award fee is \$300,000,000. The available award fee for the current interim evaluation period (#7) is \$2,600,000. Evaluation factors and assigned weights are:

Evaluation Factor/ Subfactor	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Management	32%
Planning	26%
Subcontracts	6%
Cost Control	26%
Labor Cost Control	15%
Overhead Cost Control	11%

b. PEB Findings: The findings of the PEB for the most recent evaluation period are summarized below:

Contractor performance was rated very strong overall in the technical area. Accomplishments included successful design and installation of in-flight wear monitors, and successful test of a redesigned turbo pump. Some weaknesses were identified, the most serious of which was an incompatibility between two components which was not resolved during the period, resulting in a slight schedule slip.

In the area of project management, strengths were identified, including communication of program activities to the proper management levels, on-schedule delivery of critical subcontracted hardware, and exceeding subcontracting goals. Weaknesses included ineffective checks and balances for processing hardware and insufficient management involvement at vendor sites which has jeopardized hardware integrity.

In the cost control area, the cost overrun increased by 14% in this period due in large part to labor costs. Projected overhead increases were also reported; however, the contractor has identified and will implement cost reduction measures which are expected to ameliorate the problem. (Note - promises of future actions are not normally considered in the current period evaluation, but in this case the overhead increase is also only a projection.)

c. Calculating Weighted Performance Points: As a result of the evaluation, the following performance points were assigned and weighted for the subfactors:

Subfactor	Performance Points	Assigned Weights	Weighted Performance Points*
Design	95 (Excellent)	.24	54
Quality	90 (Very Good)	.12	26
Schedule	80 (Good)	.06	11
		Total for Technical	91
Planning	70 (Satisfactory)	.26	57
Subcontracts	86 (Very Good)	.06	16
		Total for Project Mgmt	73
Labor Cost Control	50 (Poor/Unsat.)	.15	29
OH Cost Control	70 (Satisfactory)	.11	30
		Total for Cost Control	59 = 0**

*Weighted Performance Points are calculated as follows: (Performance Points x Assigned Subfactor Weight)/Assigned Factor Weight = Weighted Performance Points. For example, for Design: $(95 \times .24)/.42 = 54$

** Note that an unsatisfactory rating for a factor results in a *zero* score for that factor. The Cost Control factor received a zero score for receiving a rating of less than 61 percent. Significant cost overrun within the contractor's control should result in a score of zero for cost control.

Next, total weighted performance points were calculated for the primary evaluation factors as follows:

Weighted Factor	Performance Points	x	Assigned Weight	=	Total Weighted Performance Points
Technical	91	x	.42	=	38
Project Mgmt.	73	x	.32	=	23
Cost Control	0	x	.26	=	0
			Total for All Factors		61 (Sat.)

d. Converting Performance Points to Award Fee Score: The award fee percentage is the same number as the total weighted performance points. In this example, 61 weighted performance points equals 61% of available award fee. Award fee recommendation: \$1,586,000 (61% of \$2,600,000).

23. Example - Changes in Emphasis

If the Government's relative priorities change as work progresses from one phase into the next, or as unexpected problems or developments occur, such as schedule slippages, the evaluation plan may be revised on a unilateral basis, to communicate such changes to all parties. The following example illustrates how the Government can adjust evaluation weights to redirect contractor emphasis to areas needing improvement and the effect of that readjustment on earned award fee.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	1	2	3	4	Total
Allocation (%)	24%	18%	18%	40%	100%
Allocation (\$)	\$120K	\$90K	\$90K	\$200K	\$500K

Evaluation Period 1:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.42	x	91 (Excellent)	=	38
Project Mgmt	.32	x	73 (Good)	=	23
Cost Control	.26	x	0 (Poor/Unsat.)	=	0
			Total		61

The contractor earns \$73,200, 61% of \$120,000.

Evaluation Period 2:

If factor weights were adjusted to increase the emphasis on cost control and its performance, and thus its performance points, remained basically the same, this would be the result:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23

Cost Control	.28	x	0	=	0
			59	=	0

The contractor would receive an award fee score of 2 percentage points less in the second period than it would have if the factor weights had not changed. As a result, the contractor would receive an overall score of Poor/Unsatisfactory and no award fee for the second period.

Now, assume that the contractor responds to the shift in emphasis by improving its performance in cost control from Poor/ Unsatisfactory to minimally satisfactory, without reducing its score in any other area, as follows:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	61	=	17
					76 (Good)

By increasing its performance in cost control by 31 points (from 30 to 61) - and as a result, it's total score by 17 percent to Good--the contractor is now entitled to receive an award fee payment.

If the cost control weight had not been increased in the second period, the contractor would have continued to be paid fee (61 percent of \$90,000 or \$54,900) for unsatisfactory cost control performance. By changing the factor weights to put more emphasis on cost control, the contractor is either rewarded for improved cost control with more fee than it would have received had the weights had not been changed (76% of \$90,000 or \$68,400) or penalized for not showing improvement in that area (59 percent = no award fee payment for the period).

24. Communication

A properly structured and administered award fee contract provides effective communication among Government and contractor personnel at management levels, where decisions can be made and results achieved. A post-award conference is one way to establish communication channels early and to ensure key Government and contractor personnel understand their responsibilities. Attendees should review and discuss the performance evaluation plan and contract requirements. Frequent and honest communication is essential, both between the Government and contractor and within their respective organizational frameworks. Both Government and contractor personnel should be encouraged through the award fee process to identify potential problems as promptly as possible (as opposed to withholding such "bad news" for fear it might result in unfavorable criticism).

25. Contractor Input

The contractor may be allowed to furnish a self-assessment of its performance. Once the PEB report is prepared, the PEB may also allow the contractor to comment on the draft report. Contractor participation at this point ensures all pertinent data has been considered and no factual errors were used as a basis for decisions. Such communications, however, must not result in negotiation of award fee ratings. The ratings should be fair and reasonable, but are ultimately a unilateral Government determination. Throughout the period of performance, the contractor may be permitted to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels, both parties should recognize that frequent, less formal discussions are valuable in ensuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that constrain information sharing and other communications needed for successful joint problem solving.

26. Timeliness

The timeliness of award fee evaluations is critical. Long delays minimize any benefits from periodic evaluations and reports. Unless evaluation results are transmitted timely and award fee payments made promptly, the results and payments may not have the desired influence on the contractor's performance during subsequent evaluation periods. The timeliness of changes in the evaluation plan is also important. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

27. Documentation

Performance monitors should consider the following when preparing their reports. These questions can help assure evaluation data are complete and accurately assess how well the contractor performed in the monitors' assigned areas during the period.

- What (in the monitor's area) was the contractor supposed to do during the period? What was actually accomplished?
- How critical are the efforts accomplished, or not accomplished, by the contractor?
- What was the impact of any efforts completed early or late? How critical was the time frame involved?
- How well did the contractor perform the tasks that were accomplished?
- What are the major strengths and weaknesses (in sufficient detail to discuss with the contractor)?
- Were any Government-directed changes made or did any obstacles arise which impacted performance? What corrective actions were implemented? How effective were they?
- Has the contractor efficiently and effectively used available resources (e.g., personnel and facilities) to improve its performance?
- Has the contractor's performance been clearly assessed in regard to all tasks and specific objectives?

- On level-of-effort contracts, what has the contractor accomplished for the dollars spent (The emphasis here is to reward the contractor for accomplishments, not to reward the spending of dollars.)

The reporting formats used by monitors should be structured to ensure accuracy and clarity. Where possible, several evaluation parameters may be consolidated in a single format. Consistency can be achieved by using the same general format for all closely related work at a given activity. However, caution is required here. Carefully tailored evaluation plans can be compromised by inflexible and ill-conceived rating formats. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments provide detailed, pertinent information not addressed in the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way. These comments also discuss the contractor's efficiency in managing assigned personnel and other resources. Enough detail should be included in reports to the PEB to ensure that their findings and recommendations are accurate and fair and can be supported to the FDO.

Appropriate documentation is vital to support the PEB's recommendations, particularly when these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor and the consideration given to all such information. Since the evaluation is a judgment based upon all pertinent information, that information needs to be identified, discussed and substantiated in the documentation. The FDO will want to review the documentation to satisfy any concerns regarding contractor performance before deciding whether to accept the recommended award fee or some higher or lower amount. Examples of what the FDO might look for include:

- The facts that led to the assignment of a poor/unsatisfactory rating in any subfactor;
- The rationale for a poor/unsatisfactory rating as opposed to a satisfactory rating; and
- The circumstances under which a poor/unsatisfactory level was achieved and the relationships, if any, between it and any excellent performance levels reported for other subfactors.

Sufficient documentation should be provided to the FDO on which to base a decision and to explain that decision to the contractor. Similarly, the FDO must document the basis for the determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions or an award fee determination different from that recommended by the PEB. Documentation of interim ratings may be less detailed since they will be superseded by the final rating at the end of the contract.

28. Payment

Final award fee payments and interim payments against interim evaluations should be made generally within 60 days after the end of the evaluation period for which payment is being made.

When the total rating for an evaluation period is "poor/unsatisfactory," no award fee is paid for that period. For example, a total award fee rating of 57 ("poor/unsatisfactory") would yield an award fee of zero, not 57 percent. For certain contracts involving delivery of a final product, such as hardware, design or study, no award fee will be paid for a final evaluation rating of "poor/unsatisfactory." In these cases, any provisional award fee payments made as a result of "satisfactory" or better ratings (61 and above) on interim evaluations are to be repaid by the contractor.

The amount of interim award fee paid each period will not exceed the interim evaluation score (applied as a percentage) or 80 percent of the award fee allocated to the period, whichever is less. No further award fee payments will be made when the CO determines that the total amount of interim payments made to date will substantially exceed the amount which would be paid based upon the anticipated final evaluation score. The PEB should be notified of such a determination. The CO's determination should be based on a comparison of award fee amounts paid to actual evaluation scores to date, projected future scores based on a combination of past performance trends and any known data which might have an influence on future performance, and any other pertinent data. Stopping award fee payment serves two purposes: it ensures that contractors will not receive award fee which they have not earned and to which they will ultimately not be entitled, and it minimizes the award fee that will be owed the Government by the contractor at the end of the contract.

29. Provisional Payments

Long evaluation periods may require FAA to make award fee payments more frequently than at the end of each evaluation period. These provisional payments, representing a percentage of the award fee amount allocated to each evaluation period, are made at regular intervals during each period. They are superseded at the end of each period by the interim or final award fee determination amount. The percentage of allocated award fee to be paid provisionally will be stipulated in the contract and may not exceed 80 percent of available award fee in any period.

Provisional payments are discontinued during any period in which the Government determines that the total provisional payments made during that period will substantially exceed the amount which would be paid based upon the anticipated evaluation score for the period. In the event the amount of provisional payments made exceeds the amount of the award fee determination for that period, the contractor will either credit the next payment voucher for the amount of the overpayment or refund the difference.

30. Contract Termination

If a contract with award-fee is terminated for convenience after the start of an award-fee evaluation period, the earned award-fee amount should be determined by the FDO using the normal award-fee evaluation process. The remaining available award-fee dollars for all subsequent evaluation periods should not be considered available or earned and, therefore, should not be paid.

END

New Content: Procurement Guidance:

T3.2.4 - Types of Contracts

Appendices

Section 2 : Appendix - Award Fee

1. Introduction

This appendix includes additional explanation of award fee. It focuses on award fee under cost-reimbursement contracts, but the general concepts apply to award fee on other types of contracts.

An award fee contract provides a separate amount that a contractor may earn, in whole or in part, based on FAA's periodic evaluations of its performance. Award fee is intended to reward contractor performance, considering both the levels of performance and conditions under which the contractor achieved those levels. Award fee gives FAA flexibility to judgmentally evaluate contractor performance, and to quickly change evaluation plans to reflect changes in FAA management emphasis or concern.

2. Award Fee Provisions

A cost-plus-award fee contract includes an estimated cost, a base fee, an award fee, and an evaluation and fee payment plan. The contract also includes a clause specifying that award fee determinations are made unilaterally by the designated Fee Determination Official (FDO), according to the approved evaluation plan, and determinations are not subject to appeal under the Disputes clause.

3. Administrative Cost Versus Benefit

Award fee requires added administrative activities. Tailoring an award fee approach avoids an administrative burden disproportionate to any expected improvements in a contractor's performance and overall project management. When deciding whether to use award fee, the Contracting Officer (CO) should consider administrative cost versus expected benefit. Administrative cost includes staff time to monitor, evaluate, document, brief and otherwise implement award fee. Cost drivers include frequency of evaluation periods, and number of people involved in administering award fee. Benefits, which may be intangible and difficult to estimate, could include dollars saved by enhanced technical capability.

4. Fees

The total amount of base fee (if any) and award fee is established at contract award. The sum of base fee and award fee should reflect the overall character, difficulty, and uncertainty of the effort.

Base fee is a fixed amount, similar to fixed fee, that a contractor earns for basic risk of contract performance. Base fee is optional; FAA may decide instead to reward contractor performance solely through award fee. When base fee is used, the amount should be limited so that it does

not undermine the effectiveness of award fee. Base fee payments are generally made as part of the regular cost voucher process.

Award fee is a separate amount sufficient enough to reward the contractor for all levels *above* minimally acceptable performance. Actual award fee earned by the contractor is determined by FAA's assessment of performance against criteria included in an evaluation plan. The contractor can earn any amount of available award fee, from none to all. The contractor does not earn any award fee for less than satisfactory performance. Award fee available, but not earned, for an evaluation period is forfeited by the contractor and cannot carry forward to subsequent evaluation periods.

When establishing award fee, the CO may consider weighted guidelines profit/fee analysis factors, such as contractor effort, complexity of the effort, labor and indirect costs, cost risk, and other factors as applicable. Award fee should not be excessive, but should be large enough to adequately motivate contractor performance.

One of the most difficult situations is a hybrid contract, where there might be multiple performance incentives in addition to an award fee. The amounts allocated to each fee area must be sufficient to adequately motivate and reward a contractor to excel in each. There should be a balance in which no fee area is either so insignificant that it offers little reward or so large that it overshadows all other areas. The number of factors being incentivized also plays a part. When too many factors are incentivized, the prospect increases of any one item being too small (and thus overlooked), or the incentives being (or perceived as being) inconsistent and working at cross purposes. Using too many factors can also be confusing and increase the administrative burden.

5. Combination with Other Contract Types

A hybrid contract may be appropriate when certain aspects of a contract performance are best suited to objective measurement and other portions are suited to subjective measurement. For example, an incentive fee might be used for cost control and award fee to reward technical performance. Given the interrelationship between contract costs and the other critical performance elements, the CO should ensure that combinations of objective cost control incentives and subjective/objective award fee determinations do not result in a contractor making trade-off decisions inconsistent with FAA objectives and performance priorities. Poorly structured incentives can result in increased costs with little or no improvement in performance or cost savings with a corresponding loss in performance. No performance element should be incentivized more than once. If a separate incentive is used for cost, then cost control cannot also be rewarded in the award fee. Similarly, performance elements should be carefully structured and defined to avoid overlap, and to preclude downgrading in multiple elements for a single type of poor performance. When using hybrid contracts, financial data must be segregated to allow different cost and fee payments based on each type of contract and to provide specific management information and accountability for the work under the different types of contract. Because of the complexity in structuring and administering a hybrid contract, the CO should be reasonably sure that increased administrative costs will be offset by potential benefit.

6. Organization and Administration

The most effective organizational and administrative approach differs with each situation. The overall objective is to not impose an unreasonable administrative burden, considering the value and complexity of the contract. The following are basic guidelines:

- a. Avoid creating too many organizational layers. Excessive layers contribute to unnecessary paperwork, delays in turnaround time, and inordinate staffing demands.
- b. At the same time, the CO and project manager's assessments should be reviewed by higher level management officials who have a broader perspective and are not involved in the daily interaction with the contractor. Evaluations must be based on contractually required performance.
- c. Tailor performance evaluation plans to the specific situation, but do not reinvent the wheel. The tailored, case-by-case application of successfully used procedures and practices generally works best.
- d. The objective is to evaluate performance and not micromanage it. The Government tells the contractor what results are expected and important. It then evaluates and rewards the contractor as appropriate for achieving or exceeding the desired results. Communication with contractor personnel about performance should not lead to Government direction in a manner that compromises the contractor's responsibility or ability to manage under the contract.

7. Organizational Levels and Functions

The following basic organizational structure is appropriate for most situations. This structure and responsibilities may be modified to fit the circumstance:

Fee Determination Official

Performance Evaluation Board (with chairperson)

Performance Evaluation Coordinators (*optional*)

Performance Monitors

Fee Determination Official (FDO) -The FDO is organizationally senior to the Performance Evaluation Board (PEB) members. The FDO is identified by position title, and not name, in the award fee evaluation plan. This establishes the level of the award fee determinations, while eliminating the need to modify the contract if the incumbent FDO changes. The FDO's responsibilities include:

- a. Establishing the PEB.
- b. Approving the award fee evaluation plan and any changes required during performance, unless the FDO delegates responsibility for changes to the plan to the PEB.

- c. Considering the PEB report for each evaluation period and discussing it with the PEB Chair and, if appropriate, with others such as the contractor.
- d. Determining the amount of award fee earned and payable for each evaluation period. In the cases where all evaluation ratings are interim except the last one, determining the amount of interim award fee to be paid for each evaluation period. The FDO ensures the amount and percentage of award fee earned accurately reflects the contractor's performance.
- e. Justifying and documenting for the contract file any variances between the PEB recommendation and FDO determination.
- f. Signing the award fee determination letter specifying the amount of award fee earned and the basis for that determination for the evaluation period.

Performance Evaluation Board (PEB) - The PEB is established by the FDO. The PEB brings a broader management perspective to the evaluation process than at the monitor level (and PEB members should be at a higher management level than performance monitors). The qualifications of PEB members will vary depending on the nature, dollar value and complexity of the contract. The PEB should include at least members with overall responsibility for the technical and contracting aspects of contractor performance. Board members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews. The PEB should be established in sufficient time so it can develop (or oversee development) and distribute an approved evaluation plan *before* the start of the first evaluation period. PEB responsibilities include:

- a. Conducting ongoing evaluations of contractor performance based on Performance Monitor reports and additional performance information as may be obtained from the contractor and other sources. The PEB evaluates contractor's performance according to the standards and criteria stated in the performance evaluation plan.
- b. Submitting a PEB report to the FDO covering the Board's findings and recommendations for an award fee amount for each evaluation period.
- c. Recommending appropriate changes in the performance evaluation plan for approval by the FDO (if plan changes are not delegated to the PEB), if any.

Performance Evaluation Board (PEB) Chair - The FDO designates one PEB member as the Chair. The functions of a PEB Chair include:

- a. Scheduling PEB meetings, controlling attendance and chairing the meetings.
- b. Recommending appointment of nonvoting members to assist the PEB perform its functions, e.g., a recording secretary.

- c. Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance.
- d. Requesting and obtaining performance information from other personnel involved in observing contractor performance, as appropriate.
- e. Obtaining help from other personnel to consult with the PEB, as needed.
- f. Preparing and obtaining approval of the PEB report and other documentation such as PEB minutes.
- g. Ensuring the timeliness of award fee evaluations.

Performance Monitors - Monitors provide continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often daily oversight is the foundation of the award fee evaluation process. Performance monitors are specialists familiar with their assigned areas of cognizance; their monitor duties generally are in addition to, or an extension of, their regular responsibilities. In performing their duties, monitors should maintain ongoing communication with their contractor counterparts, conduct assessments in an open, objective and cooperative spirit, and emphasize applicable negative and positive performance elements. Monitors are designated by the PEB Chair. Responsibilities of Performance Monitors include:

- a. Monitoring (not directing), evaluating and assessing contractor performance in their assigned areas. This activity is conducted according to contract requirements and the award fee plan so that evaluations are fair and accurate.
- b. Periodically preparing a Performance Monitor report for the PEB and, if necessary, providing verbal presentations as well.
- c. Recommending any needed changes in the performance evaluation plan for consideration by the PEB and the FDO.

Performance Evaluation Coordinator (PEC) – In certain high dollar value, complex efforts, the following organizational level also might be used. Performance Evaluation Coordinators provide centralized direction to the various performance monitors and consolidate the findings of the performance monitors for review at the next highest evaluation level. The PEC level should be used only when a very large number of performance monitors are involved in the evaluation process. Each PEC (appointed by the PEB Chair, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or project management. PEC duties include:

- a. Furnishing instructions to performance monitors in their assigned areas.
- b. Ensuring that the contractor is promptly notified whenever a problem is identified requiring immediate contractor attention (However, PECs should not

give technical direction unless they are designated contracting officer's representatives (CORs) and their contracts contain a technical direction clause.).

c. Coordinating, consolidating and analyzing data submitted by their performance monitors and preparing a concisely written PEC report for presentation to the next highest evaluation level for each evaluation period.

8. Training

All personnel involved in award fee administration should be trained on the process. Training should begin before or immediately after contract award so that personnel understand the award fee process before beginning their duties. Training should cover the performance evaluation plan, roles and responsibilities, documentation requirements, evaluation techniques, and other areas such as:

- What is an award fee contract
- What is being evaluated
- How will information be gathered; what techniques will be used (e.g., inspection, sampling of work, observation, review of reports or correspondence, or customer surveys);
- When or how often will information be obtained (e.g., daily, weekly or monthly);
- How will performance monitors secure information from functional specialists to cover areas in which the monitors may not be personally involved; and
- Evaluation scoring processes and the need for consistency between scoring and evaluation summaries.

9. Steps in the Evaluation Process

Assuming the basic three-level organizational structure, the sequence of events leading to an award fee determination is:

a. A certain number of days before the period starts (specified in the performance evaluation plan), the contractor is provided with any changes to the performance evaluation plan. In addition, the PEB may determine that it wants to highlight a performance area that the contractor should pay particular emphasis to during the period. For instance, an area of performance during the period may be of particular risk to the program. The PEB may want to focus the contractor's attention on this area of risk by highlighting it. This may be done by issuing a "letter of emphasis" to the contractor a certain number of days prior to the start of the evaluation period, if specified in the performance evaluation plan.

b. During the course of the evaluation period, performance monitors track contractor performance. Interim (mid-term) evaluations may be used to identify strengths and weaknesses in the contractor's performance during the period being evaluated. Interim evaluations are documented and should involve the FDO.

- c. At the end of the period, the performance monitors assess and document the contractor's performance, and report to the PEB.
- d. The PEB considers the performance monitors' reports and any other pertinent information, including information provided by the contractor during the evaluation period, and prepares a report for the FDO with findings and recommendations.
- e. The contractor may be allowed to comment on its performance during the evaluation period, using one or more of the following methods:
- The contractor may provide a written or oral self-assessment of its performance for consideration by the PEB.
 - The contractor may be provided a copy of the PEB's draft findings and recommendations and may be allowed to identify factual errors. Any errors identified by the contractor would be addressed by the PEB in its final report. The contractor's draft recommendation is not a subject for negotiation; the PEB should not engage in discussions with the contractor.
 - The contractor may be provided a copy of the final PEB report at the same time as the PEB submits it to the FDO. Contractor may submit comments directly to the FDO for consideration.
- f. The FDO meets with the PEB to discuss the PEB's report. The FDO then makes a final determination in writing for the amount of award fee earned and to be paid. The FDO provides the determination to the CO, who sends it to the contractor. The FDO's rating is provided to the contractor as quickly as possible after the end of the period being evaluated. The FDO and PEB should provide a debriefing to the contractor after the rating has been issued.
- g. Payment to the contractor should be made as soon as possible after the end of the period. The contractor submits a separate voucher for award fee to be paid.

10. Performance Evaluation Plan (PEP)

The performance evaluation plan (PEP) includes:

- Organizational structure for award fee administration
- Method for determining award fee, including evaluation criteria and periods
- Method for implementing any changes in plan coverage

The plan should be tailored to the particular situation and should:

- Focus the contractor on performance areas of greatest importance to motivate it to make the best possible use of company resources to improve performance;
- Provide for evaluations of contractor performance levels, taking into consideration contributing circumstances and contractor resourcefulness;

- Clearly communicate evaluation procedures and provide for effective, two-way communication between the contractor and the Government personnel responsible for evaluating performance and making award fee determinations;
- Provide for an equitable and timely evaluation process;
- Establish an effective organizational structure, commensurate with the complexity and dollar value of the particular procurement, to administer the award fee provisions; and
- Be kept as simple as feasible; the simpler the plan, the more effective it is likely to be.

11. Changing the Performance Evaluation Plan

The performance evaluation plan is usually not included in the contract. This gives FAA the right to unilaterally alter the plan to reflect any changes in management emphasis. If the plan is made a part of the contract, then FAA's ability to unilaterally change the plan must be specifically stated in the contract. Unilateral changes may be made to the plan if the contractor is provided written notification by the CO before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties. All significant changes to the award fee plan should be coordinated with the PEB and approved by the FDO. Examples of significant changes include revising evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing PEB membership, and revising the distribution of the award fee dollars. It is important that the provision for unilateral changes be clearly described in the contract. The fact that the plan can be unilaterally changed does not give the FAA the right to unilaterally change other award fee provisions or other terms of the contract, absent contract language allowing it to do so.

The Appendix to this guidance includes a sample PEP.

12. Performance Evaluation Factors

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. However, those functions selected should be balanced so that a contractor, when making trade-offs between evaluation factors, assigns the proper importance to all of the critical functions identified. For example, the plan should emphasize a combination of technical performance and cost considerations, because an evaluation plan limited to technical performance (alone) might result in increased costs out of proportion to any benefits gained.

Spreading the potential award fee over a large number of performance evaluation factors dilutes emphasis. Instead, broad performance factors should be selected, such as technical, project management and cost control, supplemented by a limited number of subfactors describing significant evaluation elements over which the contractor has effective management control. Prior experience can be helpful in identifying those key problem or improvement areas that should be subject to award fee evaluations.

Some basic areas of performance need to be evaluated and rewarded on every contract. Other areas are critical only in some instances. Cost control will always be included as an evaluation factor for cost-plus-award fee contracts, if there isn't a separate cost incentive in the contract. In

general, controlling the cost of the system/equipment or service being provided, its quality (technical merit, design innovation, reliability, etc.), and its timely delivery will always be important-- although their relative importance and the measure of what constitutes good performance may vary. The relative importance of the factors and the method of evaluating a contractor should be tailored to fit the needs of individual procurement. For example, providing an item on time is generally critical to the contract. However, earlier delivery might also be of benefit to the Government and worth incentivizing. On the other hand, early deliveries might be of no benefit, or even cost the Government money if companion technologies are not yet available resulting in increased costs to the Government for storage.

The evaluation factors used in award fee should not be standardized. Rigid standardization tends to generate evaluation plans that are either too broad or include factors inapplicable to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. It is preferable to tailor performance evaluation plans and factors to fit the circumstances. As contract work progresses from one evaluation period into the next, the relative importance of specific performance factors may change.

Depending on the situation, performance evaluation factors may include outcomes, outputs, inputs or a combination of the three. An outcome factor is an assessment of the results of an activity compared to its intended purpose. Outcome-based factors are the least administratively burdensome type of performance evaluation factor, and should provide the best indicator of overall success. Outcome-based factors should be the first type of evaluation factor considered, and are often ideal for non-routine efforts.

An output factor is the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Output factors may be more desirable for routine efforts. When output factors are used, care should be taken to ensure that there is a logical connection between the reported measures and the program's mission, goals, and objectives. Examples of outcome and output factors:

Outcome: Safely install and ensure the lighting systems are certified and operational to satisfy needs.

Output(s):

- Deliver lighting systems to airports no later than July 15, 2008.
- Assemble and certify lights at each airport not later than December 15, 2008.
- Install and ensure lighting compatibility at each airport by January 5, 2009.

Outcome: Ensure program spare parts are maintained at a level sufficient to provide a 6-month supply at normal monthly draw down.

Output: Store a minimum of 1,000 program spare parts.

Input factors refer to intermediate processes, procedures, actions or techniques that are key elements influencing successful contract performance. These may include testing and other

engineering processes and techniques, quality assurance and maintenance procedures, subcontracting plans, purchasing department management, and inventory, work assignment and budgetary controls.

While it is sometimes valuable to consider input and output factors when evaluating contractor performance, it is preferred to use outcome factors when feasible since they are better indicators of success relative to the desired result. For example, in the case of service contracts where performance is demonstrated and measurable in each evaluation period, input factors may be of value in building a historical database, but may be of little or no value in the evaluation process. Accomplishments, such as achieving small and small disadvantaged subcontracting goals, are what are important, as opposed to efforts expended. In other contracts, however, where the quality of performance cannot be determined with certainty until the end of the contract, input factors can be useful indicators of how well the contractor is achieving its ultimate performance objective. However, a heavy emphasis on input factors, while meant to provide positive motivation to the contractor in certain areas of performance, may in some cases cause the contractor to divert its attention and focus from the overall output or outcome desired. Input factors are not always true indicators of the contractor's ultimate performance and so should be relied on with caution.

Some examples of performance evaluation factors, subfactors and criteria are shown below. They do not cover all possibilities, but illustrate some of the key performance areas that can be selected as evaluation factors.

Technical Performance - Accomplishment achieved in the areas of:

- Design: Approach in design concepts, analysis, detailed execution and low cost design and manufacturing. Design of test specimens, models and prototypes.
- Development: Conception/execution of manufacturing processes, test plans and techniques. Effectiveness of proposed hardware changes.
- Quality: Quality assurance, e.g., appearance, thoroughness and accuracy, inspections, customer surveys.
- Technical: Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, and performance.
- Processing Documentation: Timely and efficient preparation, implementation and closeout.
- Facilities/GFE: Operation and maintenance of assigned facilities and Government Furnished Equipment.
- Schedule: Meeting key program milestones and contractual delivery dates; anticipating and resolving problems; recovery from delays; reaction time and appropriateness of response to changes.
- Safety: Providing a safe work environment; conducting annual inspections of all facilities; maintaining accident/incident files; timely reporting of mishaps; providing safety training for all personnel.

- **Information Management:** Ability of computer system to provide adequate, timely and cost effective support; meets security requirements; management information systems ensures accurate, relevant and timely information.
- **Material Management:** Efficient and effective processing of requisitions, with emphasis on priority requisitions; responsiveness to changes in usage rates.

Project Management - Accomplishment achieved in the areas of:

- **Program Planning/Organization/Management:** Assignment and utilization of personnel; recognition of critical problem areas; cooperation and effective working relationships with other contractors and Government personnel to ensure integrated operation efficiency; support to interface activities; technology utilization; effective use of resources; labor relations; planning, organizing and managing all program elements; management actions to achieve and sustain a high level of productivity; response to emergencies and other unexpected situations.
- **Compliance with contract provisions:** Effectiveness of property and material control, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety and security.
- **Effectiveness in meeting or exceeding small business and small disadvantaged business subcontracting goals.**
- **Subcontracting:** Subcontract direction and coordination. Purchase order and subcontractor administration.
- **Timely and accurate financial management reporting.**

Cost Control – The procurement team may consider the contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) through:

- Control of indirect and overtime costs.
- Control of direct labor costs.
- Economies in use of personnel, energy, materials, computer resources, facilities, etc.
- Cost reductions through use of cost savings programs, cost avoidance programs, alternate designs and process methods, etc.
- "Make versus buy" program decisions.
- Reduced purchasing costs through increased use of competition, material inspection, etc.

The predominant consideration when evaluating cost control should be an objective measurement of the contractor's performance against the estimated cost of the contract, including the cost of undefinitized contract actions when appropriate. The estimated cost baseline should be adjusted to reflect cost increases or decreases associated with changes in Government requirements or funding schedules which are outside the contractor's control. In rare circumstances, contract costs might increase for reasons outside the contractor's control and for which the contractor is not entitled to an equitable adjustment, such as weather-related. Such situations should be taken into consideration when evaluating contractor cost control. In the case of contracts for services where contractor performance is consistent and complete within each evaluation period and does not carry over into succeeding periods, negotiated estimated cost can generally be apportioned among the evaluation periods. Cost control for each evaluation period

can then be measured against that period's share of the estimated costs. However, where contractor performance cannot be ascertained until the end of the contract (such as contracts for R&D) and cost expenditures can vary significantly from one evaluation period to the next, it makes more sense to evaluate interim contractor cost control against a cumulative expenditure profile that reflects the estimated cost.

13. Quantitative and Qualitative Standards

Once evaluation factors are selected, standards or criteria are developed for measuring contractor performance and assessing the amount of award fee earned.

Quantitative or objective performance measurement standards are based on well-defined parameters for measuring performance. They include customer surveys, inspection reports and test results. Quantitative measures should be used whenever the given performance can be precisely or finitely measured. Sufficient information or experience must be available to permit the identification of realistic standards against which quantitative measurements may be compared.

Unlike the predetermined targets and fee adjustment formulas used in incentive fee type contracts, any comparison of contractor performance against quantitative standards in the award fee environment will need to be tempered by a qualitative evaluation of existing circumstances. Quantitative measurements are not a substitute for judgment. Keep in mind that any reasonable assessment of effectiveness requires an evaluation process encompassing both performance levels and the conditions under which those levels were achieved. To be realistic, any standard (or range of acceptable performance levels) should reflect the nature and difficulty of the work involved.

Qualitative or subjective performance standards rely on evaluator's opinions and impressions of performance quality. Qualitative assessments must be as informed as possible and not rely on personal bias or a purely intuitive feeling. Some examples are:

- **Staffing:** Optimal allocation of resources; adequacy of staffing; qualified and trained personnel; identification and effective handling of employee morale problems; etc.
- **Planning:** Adequate, quality, innovative, self-initiated and timely planning of activities; effective utilization of personnel; quality of responses; etc.

Another example of a qualitative standard is a "quality review" such as a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. Note that narrative support for questionnaire answers is required.

Where feasible, the quantitative or objective measures are preferred over qualitative or subjective ones. The greater the ability to identify and quantify the facts considered in arriving at a judgmental assessment, the more credible that assessment is likely to be (and the easier it will be to prepare the supporting documentation required).

14. Weighting Evaluation Factors

In addition to identifying how performance will be evaluated and measured, the detailed performance evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors and subfactors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important" or through percentage weights. When percentages are used, the plan should state that they are for the sole purpose of communicating relative priorities, and do not imply an arithmetical precision to the judgmental determinations of overall performance quality and the amount of award fee earned.

When percentage weights are used, cost control could be at least 25 percent of the total award fee. When adjectives or narratives are used in lieu of explicit weights, cost control should be a substantial factor. No other factor should be less than 10 percent. This ensures that the factors are balanced and, when making trade-offs, the contractor assigns the proper importance to all factors.

The methodology used to establish percentage weights is illustrated in the following example:

Example:

First, list the primary evaluation factors in descending order of importance and assign a percentage weight to each factor starting with the most important. Assign the least important factor no less than 10 percent (unless the least important factor is cost control, which would be assigned a minimum of 25 percent). All assigned weightings for primary evaluation factors must total 100 percent. Round all numbers off to the nearest whole number to avoid giving the impression that the procedure is a precise one.

Next, assign percentage weights to the subfactors supporting each of the primary evaluation factors such that the total of the subfactor weights for each performance factor totals the assigned weight for that factor as shown in the example below. The actual factors and subfactors used as well as the weights assigned in any given contract may be different from those shown in the example. For instance, indirect cost control, subcontract costs, other direct costs, etc. should be evaluated when they are significant elements of cost.

Factors/Subfactors	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Mgmt.	32%
Planning	26%
Subcontracts	6%
Cost Control	26%
Labor Cost Control	15%
Overhead Cost Control	11%
Total	100%

15. Length of Evaluation Periods

Award fee evaluation periods should generally be between three to six months. Too short of an evaluation period can be administratively burdensome and lead to hasty or late evaluations which result in late fee determinations. Alternatively, evaluation periods may be tied to completing milestones. When linking evaluation periods to milestones, ensure evaluations do not occur at infrequent intervals or become subject to lengthy slippage.

16. Allocation of Award Fee

After the total award fee amount is established, the total pool is allocated over the award fee evaluation periods. For contracts where each evaluation is final, the allocation of award fee determines its distribution for final payment purposes. For other contracts, where all evaluations (and payments) are interim, except the final evaluation, award fee is allocated among the evaluation periods solely for the purpose of making interim payments against the final evaluation. That final evaluation will determine the amount of total award fee actually earned by the contractor and will supersede any interim evaluations and payments made.

The distribution of the award fee pool depends on the circumstances. Contractor expenditure profiles may be considered. The total may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is a greater risk or critical milestones occur during specific evaluation periods, a larger portion of the pool may be distributed to those periods. This permits the Government to place greater emphasis on those evaluation periods. For example, if a contract has a short initial evaluation period for the contractor to become familiar with the work, the initial period of performance may have a smaller allocation while the remaining pool is divided equally among the remaining evaluation periods. If the schedule for a significant event changes, any potential award fee amount associated with that event must be reallocated accordingly for interim payment purposes.

The following example illustrates an unequal allocation of award fee among the four performance periods, reflecting different degrees of emphasis.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Total</u>
Allocation (%)	10%	26%	40%	24%	100%
Allocation (\$)	\$50,000	\$130,000	\$200,000	\$120,000	\$500,000

17. Evaluation of Delivery or Task Order Contracts

A delivery or task order contract may provide for orders with specific requirements that are independent of any other orders' requirements and that have separate, distinct sources of funding. For such orders, an award fee amount could be allocated to each individual order along with the estimated cost. Contractor performance on each order would be evaluated against the award fee criteria on a task-by-task basis. There are instances where the Government wants to motivate the contractor's performance at the contract level versus each individual order. This condition may exist when the overriding objective is not how each individual order is executed, but how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. For example, it may not be cost effective to evaluate contractor performance on a task order basis, or when unknown/undefined requirements may materialize during the contract. An unknown requirement may arise that has a higher priority than an existing order. The primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (funding, staffing, etc.) to ensure the optimal capability is achieved at the system performance level. Therefore, the ultimate measure of success is judged as meeting the overall contract objectives and not necessarily on the performance of a single order. In this case it is in the Government's best interest to incentivize the contractor to focus its efforts and perspective on overall contract performance versus the individual orders. This does not preclude management of individual orders. To ensure that there is no confusion about how the contractor's performance will be evaluated, the award fee plan must clearly state whether the evaluation criteria are applicable at the contract or individual order level.

18. Interim and Final Evaluations

The decision about whether to conduct interim or final evaluations depends on the circumstance. In service contracts, the contract deliverable is a service and contractor performance is measurable at each evaluation period. Performance is usually not cumulative and its quality cannot be improved or reduced by future performance. For that reason, in service contracts, evaluations should be final and unearned award fee cannot be "rolled over" into subsequent evaluation periods or ever retroactively "taken back." On other contracts such as study, design or hardware, where the true quality of contractor performance cannot be measured until the end of the contract, the contract deliverable is an end item. Contractor performance leading up to delivery of the end item is an indication of whether and how well it will produce the end item, but it is not the end item itself. Since the actual quality of the end item cannot be determined until the end of the contract when it is delivered, the last evaluation should be final. All other evaluations and ratings would be interim.

At the end of the contract, the contractor's total performance is evaluated against the performance evaluation plan to determine total earned award fee. That final rating supersedes all interim ratings. It is not the average of the interim ratings. Instead, it reflects the contractor's position at the end of the contract rather than its interim progress toward that position. For example, how well a contractor has controlled costs can only be determined at the end of the contract when the contractor is evaluated against its final cost position. Whether the contractor was overrunning or underrunning the contract estimated cost at various points in time is irrelevant. The contractor's success is measured against the end result. Likewise, the contractor's ability to meet the contract schedule is determined when the hardware is delivered and accepted by the Government. Whether the contractor was behind or ahead of schedule during the course of the contract is not

relevant in the final evaluation. The same thing is true of the other evaluation factors and subfactors.

Any significant events that contributed over the course of the contract to the contractor's position (such as delays in receipt of Government furnished equipment), should be considered in the final award fee determination. Those events should be examined as they relate to the final contract outcome and not to the individual evaluation periods in which they occurred.

19. Grading and Scoring Contractor Performance

Grading and scoring methods are used to translate evaluation findings into recommended award fee amounts or ranges. The purpose is to help the FDO decide the amount of award fee earned. These methods are evaluation tools and are not a substitute for judgment in the award fee determination process. The decision process cannot be reduced to a mathematical formula or methodology. Either a weighted or nonweighted process can be used to evaluate performance.

One method is for evaluators to start from the satisfactory performance level and adjust the scores upwards or downwards, depending on the contractor's performance for the period. A rating table may be used as a guide. Another method is for evaluators to use "blind" evaluation sheets where they are asked to rate different criteria using numbers based on the adjectival ratings. The weights that will eventually be applied to their ratings do not appear on the sheets. This approach relieves to some extent the pressure placed on the evaluators by contractor employees.

As a general guideline, a contractor which satisfactorily meets its contractual commitment will fall into the "good" (71-80) range. To earn an "excellent" score (91-100), a contractor must provide exceptional performance--a combination of excellent cost, schedule and technical management. Some general considerations in the development of a grading and scoring methodology are as follows:

- When Government actions impact contractor performance either positively or negatively, e.g., changes in funding allocation or increased emphasis on certain technical requirements which require the contractor to make unexpected and extensive tradeoffs with other technical requirements, those actions should be considered in the scoring and grading process.
- The methodology should be kept as clear and simple as possible. In particular, the situation where specially tailored evaluation factors are force-fit to a "standard" grading table or scoring formula should be avoided.
- The maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available. Although a reasonable opportunity generally does not mean absolute perfection in all possible performance areas, the contractor's performance should be outstanding in virtually all areas. On the other hand, providing a contractor the maximum fee on every contract, does not adequately address the issues of risk and effort.

- Documentation of assigned performance values is required in support of award fee recommendations and computations.

20. Award Fee Conversion Table

An award fee conversion table may be used to translates overall evaluation scores (i.e., numerical performance points) into the earned award fee amount. This conversion may be linear (e.g., direct conversion of evaluation points to percentage of award fee earned) or non-linear (e.g., a formula to translate performance points to award fee earned). Use of a conversion table does not remove the element of judgment from the award fee process. Regardless of the method used, zero award fee will be earned for an overall unsatisfactory performance.

The following rating table may be used as a guide for award fee. Earned award fee (or interim award fee amounts in the case of interim evaluations) is calculated by applying the total numerical score to the award fee pool. For example, a numerical score of 85 yields an award fee of 85 percent of the award fee pool available for that evaluation period. The table below lists the award fee evaluation adjectival ratings with their corresponding score ranges. In addition, a narrative description is also provided to assist the PEB in applying the ratings. Criteria for evaluation factors and subfactors should reflect the table.

Adjective Rating	Range of Performance Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements ; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards than in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

No fee will be paid when the total evaluation score is less than 61. In addition, any factor that receives a score of less than 61 for "poor/unsatisfactory" performance will not be rewarded and converted to a factor score of zero. Such zeroing-out should not be done at the subfactor level.

21. Scoring of Cost Control

Cost control should be a substantial factor in any performance evaluation plan, except when a fixed-price award fee, fixed-price incentive or cost-plus-incentive fee contract is used. The contractor's success in controlling costs must be measured against contract estimated costs, and not against budgetary or operating plan costs. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

- a. Whenever there is a significant cost overrun that was within its control, a contractor should be given a score of zero. If the overrun is insignificant, a higher score may be given. The reasons for the overrun and the contractor's efforts to control or mitigate the overrun should be considered in the evaluation.
- b. Cost underruns within the contractor's control should normally be rewarded. However, the extent to which an underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other award fee evaluation factors. Contractors should not be rewarded for excelling in cost control to the detriment of other important performance factors. For that reason, whether a cost underrun is rewarded in the evaluation process and, if so, the degree to which it is rewarded depends, not only on the size of the underrun, but also on how well the contractor is performing overall in the other evaluation areas.
- c. When the contractor achieves the negotiated estimated cost of the contract, it should not receive the maximum score for cost control. The maximum score for cost control should only be awarded for achieving an underrun. Some lesser score will be assigned, reflecting the degree to which the contractor has prudently managed costs while meeting contract requirements.

22. Example - Calculating Earned Fee

The following example illustrates how evaluation scores for weighted factors and subfactors are calculated to arrive at a total award fee recommendation. Again, keep in mind that the use of weighted factors to calculate an award fee amount is an evaluation aid; the result does not represent a required award fee amount.

- a. Background: This CPAF contract covers design and verification testing of hardware. The contractor is also required to deliver eight production items. The total estimated cost and award fee is \$300,000,000. The available award fee for

the current interim evaluation period (#7) is \$2,600,000. Evaluation factors and assigned weights are:

Evaluation Factor/ Subfactor	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Management	32%
Planning	26%
Subcontracts	6%
Cost Control	26%
Labor Cost Control	15%
Overhead Cost Control	11%

b. PEB Findings: The findings of the PEB for the most recent evaluation period are summarized below:

Contractor performance was rated very strong overall in the technical area. Accomplishments included successful design and installation of in-flight wear monitors, and successful test of a redesigned turbo pump. Some weaknesses were identified, the most serious of which was an incompatibility between two components which was not resolved during the period, resulting in a slight schedule slip.

In the area of project management, strengths were identified, including communication of program activities to the proper management levels, on-schedule delivery of critical subcontracted hardware, and exceeding subcontracting goals. Weaknesses included ineffective checks and balances for processing hardware and insufficient management involvement at vendor sites which has jeopardized hardware integrity.

In the cost control area, the cost overrun increased by 14% in this period due in large part to labor costs. Projected overhead increases were also reported; however, the contractor has identified and will implement cost reduction measures which are expected to ameliorate the problem. (Note - promises of future actions are not normally considered in the current period evaluation, but in this case the overhead increase is also only a projection.)

c. Calculating Weighted Performance Points: As a result of the evaluation, the following performance points were assigned and weighted for the subfactors:

Subfactor	Performance Points	Assigned Weights	Weighted Performance Points*
Design	95 (Excellent)	.24	54

Quality	90 (Very Good)	.12	26
Schedule	80 (Good)	.06	11
		Total for Technical	91
Planning	70 (Satisfactory)	.26	57
Subcontracts	86 (Very Good)	.06	16
		Total for Project Mgmt	73
Labor Cost Control	50 (Poor/Unsat.)	.15	29
OH Cost Control	70 (Satisfactory)	.11	30
		Total for Cost Control	59 = 0**

*Weighted Performance Points are calculated as follows: (Performance Points x Assigned Subfactor Weight)/Assigned Factor Weight = Weighted Performance Points. For example, for Design: (95 x .24)/.42 = 54

** Note that an unsatisfactory rating for a factor results in a *zero* score for that factor. The Cost Control factor received a zero score for receiving a rating of less than 61 percent. Significant cost overrun within the contractor's control should result in a score of zero for cost control.

Next, total weighted performance points were calculated for the primary evaluation factors as follows:

Weighted Factor	Performance Points	x	Assigned Weight	=	Total Weighted Performance Points
Technical	91	x	.42	=	38
Project Mgmt.	73	x	.32	=	23
Cost Control	0	x	.26	=	0
			Total for All Factors		61 (Sat.)

d. Converting Performance Points to Award Fee Score: The award fee percentage is the same number as the total weighted performance points. In this example, 61 weighted performance points equals 61% of available award fee. Award fee recommendation: \$1,586,000 (61% of \$2,600,000).

23. Example - Changes in Emphasis

If the Government's relative priorities change as work progresses from one phase into the next, or as unexpected problems or developments occur, such as schedule slippages, the evaluation plan may be revised on a unilateral basis, to communicate such changes to all parties. The following example illustrates how the Government can adjust evaluation weights to redirect

contractor emphasis to areas needing improvement and the effect of that readjustment on earned award fee.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	1	2	3	4	Total
Allocation (%)	24%	18%	18%	40%	100%
Allocation (\$)	\$120K	\$90K	\$90K	\$200K	\$500K

Evaluation Period 1:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.42	x	91 (Excellent)	=	38
Project Mgmt	.32	x	73 (Good)	=	23
Cost Control	.26	x	0 (Poor/Unsat.)	=	0
			Total		61

The contractor earns \$73,200, 61% of \$120,000.

Evaluation Period 2:

If factor weights were adjusted to increase the emphasis on cost control and its performance, and thus its performance points, remained basically the same, this would be the result:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	0	=	0
			59	=	0

The contractor would receive an award fee score of 2 percentage points less in the second period than it would have if the factor weights had not changed. As a

result, the contractor would receive an overall score of Poor/Unsatisfactory and no award fee for the second period.

Now, assume that the contractor responds to the shift in emphasis by improving its performance in cost control from Poor/ Unsatisfactory to minimally satisfactory, without reducing its score in any other area, as follows:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	61	=	17
					76 (Good)

By increasing its performance in cost control by 31 points (from 30 to 61) - and as a result, it's total score by 17 percent to Good--the contractor is now entitled to receive an award fee payment.

If the cost control weight had not been increased in the second period, the contractor would have continued to be paid fee (61 percent of \$90,000 or \$54,900) for unsatisfactory cost control performance. By changing the factor weights to put more emphasis on cost control, the contractor is either rewarded for improved cost control with more fee than it would have received had the weights had not been changed (76% of \$90,000 or \$68,400) or penalized for not showing improvement in that area (59 percent = no award fee payment for the period).

24. Communication

A properly structured and administered award fee contract provides effective communication among Government and contractor personnel at management levels, where decisions can be made and results achieved. A post-award conference is one way to establish communication channels early and to ensure key Government and contractor personnel understand their responsibilities. Attendees should review and discuss the performance evaluation plan and contract requirements. Frequent and honest communication is essential, both between the Government and contractor and within their respective organizational frameworks. Both Government and contractor personnel should be encouraged through the award fee process to identify potential problems as promptly as possible (as opposed to withholding such "bad news" for fear it might result in unfavorable criticism).

25. Contractor Input

The contractor may be allowed to furnish a self-assessment of its performance. Once the PEB report is prepared, the PEB may also allow the contractor to comment on the draft report. Contractor participation at this point ensures all pertinent data has been considered and no factual

errors were used as a basis for decisions. Such communications, however, must not result in negotiation of award fee ratings. The ratings should be fair and reasonable, but are ultimately a unilateral Government determination. Throughout the period of performance, the contractor may be permitted to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels, both parties should recognize that frequent, less formal discussions are valuable in ensuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that constrain information sharing and other communications needed for successful joint problem solving.

26. Timeliness

The timeliness of award fee evaluations is critical. Long delays minimize any benefits from periodic evaluations and reports. Unless evaluation results are transmitted timely and award fee payments made promptly, the results and payments may not have the desired influence on the contractor's performance during subsequent evaluation periods. The timeliness of changes in the evaluation plan is also important. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

27. Documentation

Performance monitors should consider the following when preparing their reports. These questions can help assure evaluation data are complete and accurately assess how well the contractor performed in the monitors' assigned areas during the period.

- What (in the monitor's area) was the contractor supposed to do during the period? What was actually accomplished?
- How critical are the efforts accomplished, or not accomplished, by the contractor?
- What was the impact of any efforts completed early or late? How critical was the time frame involved?
- How well did the contractor perform the tasks that were accomplished?
- What are the major strengths and weaknesses (in sufficient detail to discuss with the contractor)?
- Were any Government-directed changes made or did any obstacles arise which impacted performance? What corrective actions were implemented? How effective were they?
- Has the contractor efficiently and effectively used available resources (e.g., personnel and facilities) to improve its performance?
- Has the contractor's performance been clearly assessed in regard to all tasks and specific objectives?
- On level-of-effort contracts, what has the contractor accomplished for the dollars spent (The emphasis here is to reward the contractor for accomplishments, not to reward the spending of dollars.)

The reporting formats used by monitors should be structured to ensure accuracy and clarity. Where possible, several evaluation parameters may be consolidated in a single format. Consistency can be achieved by using the same general format for all closely related work at a

given activity. However, caution is required here. Carefully tailored evaluation plans can be compromised by inflexible and ill-conceived rating formats. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments provide detailed, pertinent information not addressed in the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way. These comments also discuss the contractor's efficiency in managing assigned personnel and other resources. Enough detail should be included in reports to the PEB to ensure that their findings and recommendations are accurate and fair and can be supported to the FDO.

Appropriate documentation is vital to support the PEB's recommendations, particularly when these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor and the consideration given to all such information. Since the evaluation is a judgment based upon all pertinent information, that information needs to be identified, discussed and substantiated in the documentation. The FDO will want to review the documentation to satisfy any concerns regarding contractor performance before deciding whether to accept the recommended award fee or some higher or lower amount. Examples of what the FDO might look for include:

- The facts that led to the assignment of a poor/unsatisfactory rating in any subfactor;
- The rationale for a poor/unsatisfactory rating as opposed to a satisfactory rating; and
- The circumstances under which a poor/unsatisfactory level was achieved and the relationships, if any, between it and any excellent performance levels reported for other subfactors.

Sufficient documentation should be provided to the FDO on which to base a decision and to explain that decision to the contractor. Similarly, the FDO must document the basis for the determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions or an award fee determination different from that recommended by the PEB. Documentation of interim ratings may be less detailed since they will be superseded by the final rating at the end of the contract.

28. Payment

Final award fee payments and interim payments against interim evaluations should be made generally within 60 days after the end of the evaluation period for which payment is being made.

When the total rating for an evaluation period is "poor/unsatisfactory," no award fee is paid for that period. For example, a total award fee rating of 57 ("poor/unsatisfactory") would yield an award fee of zero, not 57 percent. For certain contracts involving delivery of a final product, such as hardware, design or study, no award fee will be paid for a final evaluation rating of "poor/unsatisfactory." In these cases, any provisional award fee payments made as a result of "satisfactory" or better ratings (61 and above) on interim evaluations are to be repaid by the contractor.

The amount of interim award fee paid each period will not exceed the interim evaluation score (applied as a percentage) or 80 percent of the award fee allocated to the period, whichever is less. No further award fee payments will be made when the CO determines that the total amount of interim payments made to date will substantially exceed the amount which would be paid based upon the anticipated final evaluation score. The PEB should be notified of such a determination. The CO's determination should be based on a comparison of award fee amounts paid to actual evaluation scores to date, projected future scores based on a combination of past performance trends and any known data which might have an influence on future performance, and any other pertinent data. Stopping award fee payment serves two purposes: it ensures that contractors will not receive award fee which they have not earned and to which they will ultimately not be entitled, and it minimizes the award fee that will be owed the Government by the contractor at the end of the contract.

29. Provisional Payments

Long evaluation periods may require FAA to make award fee payments more frequently than at the end of each evaluation period. These provisional payments, representing a percentage of the award fee amount allocated to each evaluation period, are made at regular intervals during each period. They are superseded at the end of each period by the interim or final award fee determination amount. The percentage of allocated award fee to be paid provisionally will be stipulated in the contract and may not exceed 80 percent of available award fee in any period.

Provisional payments are discontinued during any period in which the Government determines that the total provisional payments made during that period will substantially exceed the amount which would be paid based upon the anticipated evaluation score for the period. In the event the amount of provisional payments made exceeds the amount of the award fee determination for that period, the contractor will either credit the next payment voucher for the amount of the overpayment or refund the difference.

30. Contract Termination

If a contract with award fee is terminated for convenience after the start of an award fee evaluation period, the earned award fee amount should be determined by the FDO using the normal award fee evaluation process. The remaining available award fee dollars for all subsequent evaluation periods should not be considered available or earned and, therefore, should not be paid.

END

Red Line Content: Procurement Guidance:

T3.2.4 - Types of Contracts

Appendices

Section 2 : Appendix - Award Fee

1. Introduction

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This appendix includes additional explanation of award-fee. It focuses on award fee under cost-reimbursement contracts, but the general concepts apply to award fee on other types of contracts.

An award fee contract provides a separate amount that a contractor may earn, in whole or in part, based on FAA's periodic evaluations of its performance. Award fee is intended to reward contractor performance, considering both the levels of performance and conditions under which the contractor achieved those levels. Award fee gives FAA flexibility to judgmentally evaluate contractor performance, and to quickly change evaluation plans to reflect changes in FAA management emphasis or concern.

2. Award Fee Provisions

A cost-plus-award-fee contract includes an estimated cost, a base fee, an award fee, and an evaluation and fee payment plan. The contract also includes a clause specifying that award fee determinations are made unilaterally by the designated Fee Determination Official (FDO), according to the approved evaluation plan, and determinations are not subject to appeal under the Disputes clause.

3. Administrative Cost Versus Benefit

Award fee requires added administrative activities. Tailoring an award fee approach avoids an administrative burden disproportionate to any expected improvements in a contractor's performance and overall project management. When deciding whether to use award fee, the Contracting Officer (CO) should consider administrative cost versus expected benefit. Administrative cost includes staff time to monitor, evaluate, document, brief and otherwise implement award fee. Cost drivers include frequency of evaluation periods, and number of people involved in administering award fee. Benefits, which may be intangible and difficult to estimate, could include dollars saved by enhanced technical capability.

4. Fees

The total amount of base fee (if any) and award fee is established at contract award. The sum of base fee and award fee should reflect the overall character, difficulty, and uncertainty of the effort.

Base fee is a fixed amount, similar to fixed fee, that a contractor earns for basic risk of contract performance. Base fee is optional; FAA may decide instead to reward contractor performance solely through award fee. When base fee is used, the amount should be limited so that it does not undermine the effectiveness of award fee. Base fee payments are generally made as part of the regular cost voucher process.

Award fee is a separate amount sufficient enough to reward the contractor for all levels *above* minimally acceptable performance. Actual award fee earned by the contractor is determined by FAA's assessment of performance against criteria included in an evaluation plan. The contractor can earn any amount of available award fee, from none to all. The contractor does not earn any

award fee for less than satisfactory performance. Award fee available, but not earned, for an evaluation period is forfeited by the contractor and cannot carry forward to subsequent evaluation periods.

When establishing award fee, the CO may consider weighted guidelines profit/fee analysis factors, such as contractor effort, complexity of the effort, labor and indirect costs, cost risk, and other factors as applicable. Award fee should not be excessive, but should be large enough to adequately motivate contractor performance.

One of the most difficult situations is a hybrid contract, where there might be multiple performance incentives in addition to an award fee. The amounts allocated to each fee area must be sufficient to adequately motivate and reward a contractor to excel in each. There should be a balance in which no fee area is either so insignificant that it offers little reward or so large that it overshadows all other areas. The number of factors being incentivized also plays a part. When too many factors are incentivized, the prospect increases of any one item being too small (and thus overlooked), or the incentives being (or perceived as being) inconsistent and working at cross purposes. Using too many factors can also be confusing and increase the administrative burden.

5. Combination with Other Contract Types

A hybrid contract may be appropriate when certain aspects of a contract performance are best suited to objective measurement and other portions are suited to subjective measurement. For example, an incentive fee might be used for cost control and award fee to reward technical performance. Given the interrelationship between contract costs and the other critical performance elements, the CO should ensure that combinations of objective cost control incentives and subjective/objective award fee determinations do not result in a contractor making trade-off decisions inconsistent with FAA objectives and performance priorities. Poorly structured incentives can result in increased costs with little or no improvement in performance or cost savings with a corresponding loss in performance. No performance element should be incentivized more than once. If a separate incentive is used for cost, then cost control cannot also be rewarded in the award fee. Similarly, performance elements should be carefully structured and defined to avoid overlap, and to preclude downgrading in multiple elements for a single type of poor performance. When using hybrid contracts, financial data must be segregated to allow different cost and fee payments based on each type of contract and to provide specific management information and accountability for the work under the different types of contract. Because of the complexity in structuring and administering a hybrid contract, the CO should be reasonably sure that increased administrative costs will be offset by potential benefit.

6. Organization and Administration

The most effective organizational and administrative approach differs with each situation. The overall objective is to not impose an unreasonable administrative burden, considering the value and complexity of the contract. The following are basic guidelines:

- a. Avoid creating too many organizational layers. Excessive layers contribute to unnecessary paperwork, delays in turnaround time, and inordinate staffing demands.
- b. At the same time, the CO and project manager's assessments should be reviewed by higher level management officials who have a broader perspective and are not involved in the daily interaction with the contractor. Evaluations must be based on contractually required performance.
- c. Tailor performance evaluation plans to the specific situation, but do not reinvent the wheel. The tailored, case-by-case application of successfully used procedures and practices generally works best.
- d. The objective is to evaluate performance and not micromanage it. The Government tells the contractor what results are expected and important. It then evaluates and rewards the contractor as appropriate for achieving or exceeding the desired results. Communication with contractor personnel about performance should not lead to Government direction in a manner that compromises the contractor's responsibility or ability to manage under the contract.

7. Organizational Levels and Functions

The following basic organizational structure is appropriate for most situations. This structure and responsibilities may be modified to fit the circumstance:

Fee Determination Official

Performance Evaluation Board (with chairperson)

Performance Evaluation Coordinators (*optional*)

Performance Monitors

Fee Determination Official (FDO) -The FDO is organizationally senior to the Performance Evaluation Board (PEB) members. The FDO is identified by position title, and not name, in the award fee evaluation plan. This establishes the level of the award fee determinations, while eliminating the need to modify the contract if the incumbent FDO changes. The FDO's responsibilities include:

- a. Establishing the PEB.
- b. Approving the award fee evaluation plan and any changes required during performance, unless the FDO delegates responsibility for changes to the plan to the PEB.
- c. Considering the PEB report for each evaluation period and discussing it with the PEB Chair and, if appropriate, with others such as the contractor.
- d. Determining the amount of award fee earned and payable for each evaluation period. In the cases where all evaluation ratings are interim except the last one,

determining the amount of interim award fee to be paid for each evaluation period. The FDO ensures the amount and percentage of award fee earned accurately reflects the contractor's performance.

e. Justifying and documenting for the contract file any variances between the PEB recommendation and FDO determination.

f. Signing the award fee determination letter specifying the amount of award fee earned and the basis for that determination for the evaluation period.

Performance Evaluation Board (PEB) - The PEB is established by the FDO. The PEB brings a broader management perspective to the evaluation process than at the monitor level (and PEB members should be at a higher management level than performance monitors). The qualifications of PEB members will vary depending on the nature, dollar value and complexity of the contract. The PEB should include at least members with overall responsibility for the technical and contracting aspects of contractor performance. Board members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews. The PEB should be established in sufficient time so it can develop (or oversee development) and distribute an approved evaluation plan *before* the start of the first evaluation period. PEB responsibilities include:

a. Conducting ongoing evaluations of contractor performance based on Performance Monitor reports and additional performance information as may be obtained from the contractor and other sources. The PEB evaluates contractor's performance according to the standards and criteria stated in the performance evaluation plan.

b. Submitting a PEB report to the FDO covering the Board's findings and recommendations for an award fee amount for each evaluation period.

c. Recommending appropriate changes in the performance evaluation plan for approval by the FDO (if plan changes are not delegated to the PEB), if any.

Performance Evaluation Board (PEB) Chair - The FDO designates one PEB member as the Chair. The functions of a PEB Chair include:

a. Scheduling PEB meetings, controlling attendance and chairing the meetings.

b. Recommending appointment of nonvoting members to assist the PEB perform its functions, e.g., a recording secretary.

c. Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance.

d. Requesting and obtaining performance information from other personnel involved in observing contractor performance, as appropriate.

- e. Obtaining help from other personnel to consult with the PEB, as needed.
- f. Preparing and obtaining approval of the PEB report and other documentation such as PEB minutes.
- g. Ensuring the timeliness of award fee evaluations.

Performance Monitors - Monitors provide continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often daily oversight is the foundation of the award fee evaluation process. Performance monitors are specialists familiar with their assigned areas of cognizance; their monitor duties generally are in addition to, or an extension of, their regular responsibilities. In performing their duties, monitors should maintain ongoing communication with their contractor counterparts, conduct assessments in an open, objective and cooperative spirit, and emphasize applicable negative and positive performance elements. Monitors are designated by the PEB Chair. Responsibilities of Performance Monitors include:

- a. Monitoring (not directing), evaluating and assessing contractor performance in their assigned areas. This activity is conducted according to contract requirements and the award fee plan so that evaluations are fair and accurate.
- b. Periodically preparing a Performance Monitor report for the PEB and, if necessary, providing verbal presentations as well.
- c. Recommending any needed changes in the performance evaluation plan for consideration by the PEB and the FDO.

Performance Evaluation Coordinator (PEC) – In certain high dollar value, complex efforts, the following organizational level also might be used. Performance Evaluation Coordinators provide centralized direction to the various performance monitors and consolidate the findings of the performance monitors for review at the next highest evaluation level. The PEC level should be used only when a very large number of performance monitors are involved in the evaluation process. Each PEC (appointed by the PEB Chair, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or project management. PEC duties include:

- a. Furnishing instructions to performance monitors in their assigned areas.
- b. Ensuring that the contractor is promptly notified whenever a problem is identified requiring immediate contractor attention (However, PECs should not give technical direction unless they are designated contracting officer's representatives (CORs) and their contracts contain a technical direction clause.).
- c. Coordinating, consolidating and analyzing data submitted by their performance monitors and preparing a concisely written PEC report for presentation to the next highest evaluation level for each evaluation period.

8. Training

All personnel involved in award fee administration should be trained on the process. Training should begin before or immediately after contract award so that personnel understand the award-fee process before beginning their duties. Training should cover the performance evaluation plan, roles and responsibilities, documentation requirements, evaluation techniques, and other areas such as:

- What is an award fee contract
- What is being evaluated
- How will information be gathered; what techniques will be used (e.g., inspection, sampling of work, observation, review of reports or correspondence, or customer surveys);
- When or how often will information be obtained (e.g., daily, weekly or monthly);
- How will performance monitors secure information from functional specialists to cover areas in which the monitors may not be personally involved; and
- Evaluation scoring processes and the need for consistency between scoring and evaluation summaries.

9. Steps in the Evaluation Process

Assuming the basic three-level organizational structure, the sequence of events leading to an award fee determination is:

- a. A certain number of days before the period starts (specified in the performance evaluation plan), the contractor is provided with any changes to the performance evaluation plan. In addition, the PEB may determine that it wants to highlight a performance area that the contractor should pay particular emphasis to during the period. For instance, an area of performance during the period may be of particular risk to the program. The PEB may want to focus the contractor's attention on this area of risk by highlighting it. This may be done by issuing a "letter of emphasis" to the contractor a certain number of days prior to the start of the evaluation period, if specified in the performance evaluation plan.
- b. During the course of the evaluation period, performance monitors track contractor performance. Interim (mid-term) evaluations may be used to identify strengths and weaknesses in the contractor's performance during the period being evaluated. Interim evaluations are documented and should involve the FDO.
- c. At the end of the period, the performance monitors assess and document the contractor's performance, and report to the PEB.
- d. The PEB considers the performance monitors' reports and any other pertinent information, including information provided by the contractor during the evaluation period, and prepares a report for the FDO with findings and recommendations.

e. The contractor may be allowed to comment on its performance during the evaluation period, using one or more of the following methods:

- The contractor may provide a written or oral self-assessment of its performance for consideration by the PEB.
- -The contractor may be provided a copy of the PEB's draft findings and recommendations and may be allowed to identify factual errors. Any errors identified by the contractor would be addressed by the PEB in its final report. The contractor's draft recommendation is not a subject for negotiation; the PEB should not engage in discussions with the contractor.
- The contractor may be provided a copy of the final PEB report at the same time as the PEB submits it to the FDO. Contractor may submit comments directly to the FDO for consideration.

f. The FDO meets with the PEB to discuss the PEB's report. The FDO then makes a final determination in writing for the amount of award fee earned and to be paid. The FDO provides the determination to the CO, who sends it to the contractor. The FDO's rating is provided to the contractor as quickly as possible after the end of the period being evaluated. The FDO and PEB should provide a debriefing to the contractor after the rating has been issued.

g.- Payment to the contractor should be made as soon as possible after the end of the period. The contractor submits a separate voucher for award fee to be paid.

10. Performance Evaluation Plan (PEP)

The performance evaluation plan (PEP) includes:

- Organizational structure for award fee administration
- Method for determining award fee, including evaluation criteria and periods
- Method for implementing any changes in plan coverage

The plan should be tailored to the particular situation and should:

- Focus the contractor on performance areas of greatest importance to motivate it to make the best possible use of company resources to improve performance;
- Provide for evaluations of contractor performance levels, taking into consideration contributing circumstances and contractor resourcefulness;
- Clearly communicate evaluation procedures and provide for effective, two-way communication between the contractor and the Government personnel responsible for evaluating performance and making award fee determinations;
- Provide for an equitable and timely evaluation process;
- Establish an effective organizational structure, commensurate with the complexity and dollar value of the particular procurement, to administer the award fee provisions; and
- Be kept as simple as feasible; the simpler the plan, the more effective it is likely to be.

11. Changing the Performance Evaluation Plan

The performance evaluation plan is usually not included in the contract. This gives FAA the right to unilaterally alter the plan to reflect any changes in management emphasis. If the plan is made a part of the contract, then FAA's ability to unilaterally change the plan must be specifically stated in the contract. Unilateral changes may be made to the plan if the contractor is provided written notification by the CO before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties. - All significant changes to the award-fee plan should be coordinated with the PEB and approved by the FDO. Examples of significant changes include revising evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing PEB membership, and revising the distribution of the award-fee dollars. It is important that the provision for unilateral changes be clearly described in the contract. The fact that the plan can be unilaterally changed does not give the FAA the right to unilaterally change other award fee provisions or other terms of the contract, absent contract language allowing it to do so.

The Appendix to this guidance includes a sample PEP.

12. Performance Evaluation Factors

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. However, those functions selected should be balanced so that a contractor, when making trade-offs between evaluation factors, assigns the proper importance to all of the critical functions identified. For example, the plan should emphasize a combination of technical performance and cost considerations, because an evaluation plan limited to technical performance (alone) might result in increased costs out of proportion to any benefits gained.

Spreading the potential award fee over a large number of performance evaluation factors dilutes emphasis. Instead, broad performance factors should be selected, such as technical, project management and cost control, supplemented by a limited number of subfactors describing significant evaluation elements over which the contractor has effective management control. Prior experience can be helpful in identifying those key problem or improvement areas that should be subject to award fee evaluations.

Some basic areas of performance need to be evaluated and rewarded on every contract. Other areas are critical only in some instances. Cost control will always be included as an evaluation factor for cost-plus-award fee contracts, if there isn't a separate cost incentive in the contract. In general, controlling the cost of the system/equipment or service being provided, its quality (technical merit, design innovation, reliability, etc.), and its timely delivery will always be important-- although their relative importance and the measure of what constitutes good performance may vary. The relative importance of the factors and the method of evaluating a contractor should be tailored to fit the needs of individual procurement. For example, providing an item on time is generally critical to the contract. However, earlier delivery might also be of benefit to the Government and worth incentivizing. On the other hand, early deliveries might be

of no benefit, or even cost the Government money if companion technologies are not yet available resulting in increased costs to the Government for storage.

The evaluation factors used in award fee should not be standardized. Rigid standardization tends to generate evaluation plans that are either too broad or include factors inapplicable to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. It is preferable to tailor performance evaluation plans and factors to fit the circumstances. As contract work progresses from one evaluation period into the next, the relative importance of specific performance factors may change.

Depending on the situation, performance evaluation factors may include outcomes, outputs, inputs or a combination of the three. An outcome factor is an assessment of the results of an activity compared to its intended purpose. Outcome-based factors are the least administratively burdensome type of performance evaluation factor, and should provide the best indicator of overall success. Outcome-based factors should be the first type of evaluation factor considered, and are often ideal for non-routine efforts.

An output factor is the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Output factors may be more desirable for routine efforts. When output factors are used, care should be taken to ensure that there is a logical connection between the reported measures and the program's mission, goals, and objectives. Examples of outcome and output factors:

Outcome: Safely install and ensure the lighting systems are certified and operational to satisfy needs.

Output(s):

- Deliver lighting systems to airports no later than July 15, 2008.
- Assemble and certify lights at each airport not later than December 15, 2008.
- Install and ensure lighting compatibility at each airport by January 5, 2009.

Outcome: Ensure program spare parts are maintained at a level sufficient to provide a 6-month supply at normal monthly draw down.

Output: Store a minimum of 1,000 program spare parts.

Input factors refer to intermediate processes, procedures, actions or techniques that are key elements influencing successful contract performance. These may include testing and other engineering processes and techniques, quality assurance and maintenance procedures, subcontracting plans, purchasing department management, and inventory, work assignment and budgetary controls.

While it is sometimes valuable to consider input and output factors when evaluating contractor performance, it is preferred to use outcome factors when feasible since they are better indicators of success relative to the desired result. For example, in the case of service contracts where

performance is demonstrated and measurable in each evaluation period, input factors may be of value in building a historical database, but may be of little or no value in the evaluation process. Accomplishments, such as achieving small and small disadvantaged subcontracting goals, are what are important, as opposed to efforts expended. In other contracts, however, where the quality of performance cannot be determined with certainty until the end of the contract, input factors can be useful indicators of how well the contractor is achieving its ultimate performance objective. However, a heavy emphasis on input factors, while meant to provide positive motivation to the contractor in certain areas of performance, may in some cases because the contractor to divert its attention and focus from the overall output or outcome desired. Input factors are not always true indicators of the contractor's ultimate performance and so should be relied on with caution.

Some examples of performance evaluation factors, subfactors and criteria are shown below. They do not cover all possibilities, but illustrate some of the key performance areas that can be selected as evaluation factors.

Technical Performance - Accomplishment achieved in the areas of:

- Design: Approach in design concepts, analysis, detailed execution and low cost design and manufacturing. Design of test specimens, models and prototypes.
- Development: Conception/execution of manufacturing processes, test plans and techniques. Effectiveness of proposed hardware changes.
- Quality: Quality assurance, e.g., appearance, thoroughness and accuracy, inspections, customer surveys.
- Technical: Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, and performance.
- Processing Documentation: Timely and efficient preparation, implementation and closeout.
- Facilities/GFE: Operation and maintenance of assigned facilities and Government Furnished Equipment.
- Schedule: Meeting key program milestones and contractual delivery dates; anticipating and resolving problems; recovery from delays; reaction time and appropriateness of response to changes.
- Safety: Providing a safe work environment; conducting annual inspections of all facilities; maintaining accident/incident files; timely reporting of mishaps; providing safety training for all personnel.
- Information Management: Ability of computer system to provide adequate, timely and cost effective support; meets security requirements; management information systems ensures accurate, relevant and timely information.
- Material Management: Efficient and effective processing of requisitions, with emphasis on priority requisitions; responsiveness to changes in usage rates.

Project Management - Accomplishment achieved in the areas of:

- Program Planning/Organization/Management: Assignment and utilization of personnel; recognition of critical problem areas; cooperation and effective working relationships with other contractors and Government personnel to ensure integrated operation efficiency; support to interface activities; technology utilization; effective use of resources; labor relations; planning, organizing and managing all program elements; management actions to achieve and sustain a high level of productivity; response to emergencies and other unexpected situations.
- Compliance with contract provisions: Effectiveness of property and material control, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety and security.
- Effectiveness in meeting or exceeding small business and small disadvantaged business subcontracting goals.
- Subcontracting: Subcontract direction and coordination. Purchase order and subcontractor administration.
- Timely and accurate financial management reporting.

Cost Control – ~~Cost control is generally not a basis for an award fee. However, for the purposes of performance evaluation factors, the acquisition~~ The procurement team may consider the contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) through:

- Control of indirect and overtime costs.
- Control of direct labor costs.
- Economies in use of personnel, energy, materials, computer resources, facilities, etc.
- Cost reductions through use of cost savings programs, cost avoidance programs, alternate designs and process methods, etc.
- "Make versus buy" program decisions.
- Reduced purchasing costs through increased use of competition, material inspection, etc.

The predominant consideration when evaluating cost control should be an objective measurement of the contractor's performance against the estimated cost of the contract, including the cost of undefinitized contract actions when appropriate. The estimated cost baseline should be adjusted to reflect cost increases or decreases associated with changes in Government requirements or funding schedules which are outside the contractor's control. In rare circumstances, contract costs might increase for reasons outside the contractor's control and for which the contractor is not entitled to an equitable adjustment, such as weather-related. Such situations should be taken into consideration when evaluating contractor cost control. In the case of contracts for services where contractor performance is consistent and complete within each evaluation period and does not carry over into succeeding periods, negotiated estimated cost can generally be apportioned among the evaluation periods. Cost control for each evaluation period can then be measured against that period's share of the estimated costs. However, where contractor performance cannot be ascertained until the end of the contract (such as contracts for R&D) and cost expenditures can vary significantly from one evaluation period to the next, it makes more sense to evaluate interim contractor cost control against a cumulative expenditure profile that reflects the estimated cost.

13. Quantitative and Qualitative Standards

Once evaluation factors are selected, standards or criteria are developed for measuring contractor performance and assessing the amount of award fee earned.

Quantitative or objective performance measurement standards are based on well-defined parameters for measuring performance. They include customer surveys, inspection reports and test results. Quantitative measures should be used whenever the given performance can be precisely or finitely measured. Sufficient information or experience must be available to permit the identification of realistic standards against which quantitative measurements may be compared.

Unlike the predetermined targets and fee adjustment formulas used in incentive fee type contracts, any comparison of contractor performance against quantitative standards in the award fee environment will need to be tempered by a qualitative evaluation of existing circumstances. Quantitative measurements are not a substitute for judgment. Keep in mind that any reasonable assessment of effectiveness requires an evaluation process encompassing both performance levels and the conditions under which those levels were achieved. To be realistic, any standard (or range of acceptable performance levels) should reflect the nature and difficulty of the work involved.

Qualitative or subjective performance standards rely on evaluator's opinions and impressions of performance quality. Qualitative assessments must be as informed as possible and not rely on personal bias or a purely intuitive feeling. Some examples are:

- **Staffing:** Optimal allocation of resources; adequacy of staffing; qualified and trained personnel; identification and effective handling of employee morale problems; etc.
- **Planning:** Adequate, quality, innovative, self-initiated and timely planning of activities; effective utilization of personnel; quality of responses; etc.

Another example of a qualitative standard is a "quality review" such as a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. Note that narrative support for questionnaire answers is required.

Where feasible, the quantitative or objective measures are preferred over qualitative or subjective ones. The greater the ability to identify and quantify the facts considered in arriving at a judgmental assessment, the more credible that assessment is likely to be (and the easier it will be to prepare the supporting documentation required).

14. Weighting Evaluation Factors

In addition to identifying how performance will be evaluated and measured, the detailed performance evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors and subfactors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important" or through percentage weights. When percentages are used, the plan should state that they are for the sole purpose of communicating relative priorities, and do not imply an arithmetical precision to the judgmental determinations of overall performance quality and the amount of award fee earned.

~~Cost control should always be a substantial factor.~~ When percentage weights are used, cost control could be at least 25 percent of the total award fee. When adjectives or narratives are used in lieu of explicit weights, cost control should be a substantial factor. No other factor should be less than 10 percent. This ensures that the factors are balanced and, when making trade-offs, the contractor assigns the proper importance to all factors.

The methodology used to establish percentage weights is illustrated in the following example:

Example:

First, list the primary evaluation factors in descending order of importance and assign a percentage weight to each factor starting with the most important. Assign the least important factor no less than 10 percent (unless the least important factor is cost control, which would be assigned a minimum of 25 percent). All assigned weightings for primary evaluation factors must total 100 percent. Round all numbers off to the nearest whole number to avoid giving the impression that the procedure is a precise one.

Next, assign percentage weights to the subfactors supporting each of the primary evaluation factors such that the total of the subfactor weights for each performance factor totals the assigned weight for that factor as shown in the example below. The actual factors and subfactors used as well as the weights assigned in any given contract may be different from those shown in the example. For instance, indirect cost control, subcontract costs, other direct costs, etc. should be evaluated when they are significant elements of cost.

Factors/Subfactors	Assigned Weight	
Technical	42%	
Design		24%
Quality		12%
Schedule		6%
Project Mgmt.	32%	
Planning		26%
Subcontracts		6%
Cost Control	26%	
Labor Cost Control		15%
Overhead Cost Control		11%
Total	100%	

15. Length of Evaluation Periods

Award fee evaluation periods should generally be between three to six months. Too short of an evaluation period can be administratively burdensome and lead to hasty or late evaluations which result in late fee determinations. Alternatively, evaluation periods may be tied to completing milestones. When linking evaluation periods to milestones, ensure evaluations do not occur at infrequent intervals or become subject to lengthy slippage.

16. Allocation of Award Fee

After the total award fee amount is established, the total pool is allocated over the award fee evaluation periods. For contracts where each evaluation is final, the allocation of award fee determines its distribution for final payment purposes. For other contracts, where all evaluations (and payments) are interim, except the final evaluation, award fee is allocated among the evaluation periods solely for the purpose of making interim payments against the final evaluation. That final evaluation will determine the amount of total award fee actually earned by the contractor and will supersede any interim evaluations and payments made.

The distribution of the award fee pool depends on the circumstances. Contractor expenditure profiles may be considered. The total may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is a greater risk or critical milestones occur during specific evaluation periods, a larger portion of the pool may be distributed to those periods. This permits the Government to place greater emphasis on those evaluation periods. For example, if a contract has a short initial evaluation period for the contractor to become familiar with the work, the initial period of performance may have a smaller allocation while the remaining pool is divided equally among the remaining evaluation periods. If the schedule for a significant event changes, any potential award fee amount associated with that event must be reallocated accordingly for interim payment purposes.

The following example illustrates an unequal allocation of award fee among the four performance periods, reflecting different degrees of emphasis.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Total</u>
Allocation (%)	10%	26%	40%	24%	100%
Allocation (\$)	\$50,000	\$130,000	\$200,000	\$120,000	\$500,000

17. Evaluation of Delivery or Task Order Contracts

A delivery or task order contract may provide for orders with specific requirements that are independent of any other orders' requirements and that have separate, distinct sources of funding. For such orders, an award fee amount could be allocated to each individual order along with the estimated cost. Contractor performance on each order would be evaluated against the award fee criteria on a task-by-task basis. There are instances where the Government wants to motivate the contractor's performance at the contract level versus each individual order. This condition may exist when the overriding objective is not how each individual order is executed,

but how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. For example, it may not be cost effective to evaluate contractor performance on a task order basis, or when unknown/undefined requirements may materialize during the contract. An unknown requirement may arise that has a higher priority than an existing order. The primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (funding, staffing, etc.) to ensure the optimal capability is achieved at the system performance level. Therefore, the ultimate measure of success is judged as meeting the overall contract objectives and not necessarily on the performance of a single order. In this case it is in the Government's best interest to ~~incentives~~incentivize the contractor to focus its efforts and perspective on overall contract performance versus the individual orders. This does not preclude management of individual orders. To ensure that there is no confusion about how the contractor's performance will be evaluated, the award fee plan must clearly state whether the evaluation criteria are applicable at the contract or individual order level.

18. Interim and Final Evaluations

The decision about whether to conduct interim or final evaluations depends on the circumstance. In service contracts, the contract deliverable is a service and contractor performance is measurable at each evaluation period. Performance is usually not cumulative and its quality cannot be improved or reduced by future performance. For that reason, in service contracts, evaluations should be final and unearned award fee cannot be "rolled over" into subsequent evaluation periods or ever retroactively "taken back." On other contracts such as study, design or hardware, where the true quality of contractor performance cannot be measured until the end of the contract, the contract deliverable is an end item. Contractor performance leading up to delivery of the end item is an indication of whether and how well it will produce the end item, but it is not the end item itself. Since the actual quality of the end item cannot be determined until the end of the contract when it is delivered, the last evaluation should be final. All other evaluations and ratings would be interim.

At the end of the contract, the contractor's total performance is evaluated against the performance evaluation plan to determine total earned award fee. That final rating supersedes all interim ratings. It is not the average of the interim ratings. Instead, it reflects the contractor's position at the end of the contract rather than its interim progress toward that position. For example, how well a contractor has controlled costs can only be determined at the end of the contract when the contractor is evaluated against its final cost position. Whether the contractor was overrunning or underrunning the contract estimated cost at various points in time is irrelevant. The contractor's success is measured against the end result. Likewise, the contractor's ability to meet the contract schedule is determined when the hardware is delivered and accepted by the Government. Whether the contractor was behind or ahead of schedule during the course of the contract is not relevant in the final evaluation. The same thing is true of the other evaluation factors and subfactors.

Any significant events that contributed over the course of the contract to the contractor's position (such as delays in receipt of Government furnished equipment), should be considered in the final award fee determination. Those events should be examined as they relate to the final contract outcome and not to the individual evaluation periods in which they occurred.

19. Grading and Scoring Contractor Performance

Grading and scoring methods are used to translate evaluation findings into recommended award fee amounts or ranges. The purpose is to help the FDO decide the amount of award fee earned. These methods are evaluation tools and are not a substitute for judgment in the award fee determination process. The decision process cannot be reduced to a mathematical formula or methodology. Either a weighted or nonweighted process can be used to evaluate performance.

One method is for evaluators to start from the satisfactory performance level and adjust the scores upwards or downwards, depending on the contractor's performance for the period. A rating table may be used as a guide. Another method is for evaluators to use "blind" evaluation sheets where they are asked to rate different criteria using numbers based on the adjectival ratings. The weights that will eventually be applied to their ratings do not appear on the sheets. This approach relieves to some extent the pressure placed on the evaluators by contractor employees.

As a general guideline, a contractor which satisfactorily meets its contractual commitment will fall into the "good" (71-80) range. To earn an "excellent" score (91-100), a contractor must provide exceptional performance--a combination of excellent cost, schedule and technical management. Some general considerations in the development of a grading and scoring methodology are as follows:

- When Government actions impact contractor performance either positively or negatively, e.g., changes in funding allocation or increased emphasis on certain technical requirements which require the contractor to make unexpected and extensive tradeoffs with other technical requirements, those actions should be considered in the scoring and grading process.
- The methodology should be kept as clear and simple as possible. In particular, the situation where specially tailored evaluation factors are force-fit to a "standard" grading table or scoring formula should be avoided.
- The maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available. Although a reasonable opportunity generally does not mean absolute perfection in all possible performance areas, the contractor's performance should be outstanding in virtually all areas. On the other hand, providing a contractor the maximum fee on every contract, does not adequately address the issues of risk and effort.
- Documentation of assigned performance values is required in support of award fee recommendations and computations.

20. Award Fee Conversion Table

An award-fee conversion table may be used to translates overall evaluation scores (i.e., numerical performance points) into the earned award-fee amount. This conversion may be linear (e.g., direct conversion of evaluation points to percentage of award fee earned) or non-linear (e.g., a formula to translate performance points to award fee earned). Use of a conversion

table does not remove the element of judgment from the award-fee process. Regardless of the method used, zero award fee will be earned for an overall unsatisfactory performance.

The following rating table may be used as a guide for award fee. Earned award fee (or interim award fee amounts in the case of interim evaluations) is calculated by applying the total numerical score to the award fee pool. For example, a numerical score of 85 yields an award fee of 85 percent of the award fee pool available for that evaluation period. The table below lists the award fee evaluation adjectival ratings with their corresponding score ranges. In addition, a narrative description is also provided to assist the PEB in applying the ratings. Criteria for evaluation factors and subfactors should reflect the table.

Adjective Rating	Range of Performance Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements ; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards than in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

No fee will be paid when the total evaluation score is less than 61. In addition, any factor that receives a score of less than 61 for "poor/unsatisfactory" performance will not be rewarded and converted to a factor score of zero. Such zeroing-out should not be done at the subfactor level.

21. Scoring of Cost Control

Cost control should be a substantial factor in any performance evaluation plan, except when a fixed-price award fee, fixed-price incentive or cost-plus-incentive fee contract is used. The contractor's success in controlling costs must be measured against contract estimated costs, and not against budgetary or operating plan costs. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

a. Whenever there is a significant cost overrun that was within its control, a contractor should be given a score of zero. If the overrun is insignificant, a higher score may be given. The reasons for the overrun and the contractor's efforts to control or mitigate the overrun should be considered in the evaluation.

b. Cost underruns within the contractor's control should normally be rewarded. However, the extent to which an underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other award fee evaluation factors. Contractors should not be rewarded for excelling in cost control to the detriment of other important performance factors. For that reason, whether a cost underrun is rewarded in the evaluation process and, if so, the degree to which it is rewarded depends, not only on the size of the underrun, but also on how well the contractor is performing overall in the other evaluation areas.

c. When the contractor achieves the negotiated estimated cost of the contract, it should not receive the maximum score for cost control. The maximum score for cost control should only be awarded for achieving an underrun. Some lesser score will be assigned, reflecting the degree to which the contractor has prudently managed costs while meeting contract requirements.

22. Example - Calculating Earned Fee

The following example illustrates how evaluation scores for weighted factors and subfactors are calculated to arrive at a total award fee recommendation. Again, keep in mind that the use of weighted factors to calculate an award fee amount is an evaluation aid; the result does not represent a required award fee amount.

a. Background: This CPAF contract covers design and verification testing of hardware. The contractor is also required to deliver eight production items. The total estimated cost and award fee is \$300,000,000. The available award fee for the current interim evaluation period (#7) is \$2,600,000. Evaluation factors and assigned weights are:

Evaluation Factor/ Subfactor	Assigned Weight
Technical	42%
Design	24%
Quality	12%

	Schedule	6%
Project Management		32%
	Planning	26%
	Subcontracts	6%
Cost Control		26%
	Labor Cost Control	15%
	Overhead Cost Control	11%

b. PEB Findings: The findings of the PEB for the most recent evaluation period are summarized below:

Contractor performance was rated very strong overall in the technical area. Accomplishments included successful design and installation of in-flight wear monitors, and successful test of a redesigned turbo pump. Some weaknesses were identified, the most serious of which was an incompatibility between two components which was not resolved during the period, resulting in a slight schedule slip.

In the area of project management, strengths were identified, including communication of program activities to the proper management levels, on-schedule delivery of critical subcontracted hardware, and exceeding subcontracting goals. Weaknesses included ineffective checks and balances for processing hardware and insufficient management involvement at vendor sites which has jeopardized hardware integrity.

In the cost control area, the cost overrun increased by 14% in this period due in large part to labor costs. Projected overhead increases were also reported; however, the contractor has identified and will implement cost reduction measures which are expected to ameliorate the problem. (Note - promises of future actions are not normally considered in the current period evaluation, but in this case the overhead increase is also only a projection.)

c. Calculating Weighted Performance Points: As a result of the evaluation, the following performance points were assigned and weighted for the subfactors:

Subfactor	Performance Points	Assigned Weights	Weighted Performance Points*
Design	95 (Excellent)	.24	54
Quality	90 (Very Good)	.12	26
Schedule	80 (Good)	.06	11
		Total for Technical	91
Planning	70 (Satisfactory)	.26	57
Subcontracts	86 (Very Good)	.06	16
		Total for Project Mgmt	73
Labor Cost	50 (Poor/Unsat.)	.15	29

Control			
OH Cost Control	70 (Satisfactory)	.11	30
		Total for Cost Control	59 = 0**

*Weighted Performance Points are calculated as follows: (Performance Points x Assigned Subfactor Weight)/Assigned Factor Weight = Weighted Performance Points. For example, for Design: (95 x .24)/.42 = 54

** Note that an unsatisfactory rating for a factor results in a *zero* score for that factor. The Cost Control factor received a zero score for receiving a rating of less than 61 percent. Significant cost overrun within the contractor's control should result in a score of zero for cost control.

Next, total weighted performance points were calculated for the primary evaluation factors as follows:

Weighted Factor	Performance Points	x	Assigned Weight	=	Total Weighted Performance Points
Technical	91	x	.42	=	38
Project Mgmt.	73	x	.32	=	23
Cost Control	0	x	.26	=	0
			Total for All Factors		61 (Sat.)

d. Converting Performance Points to Award Fee Score: The award fee percentage is the same number as the total weighted performance points. In this example, 61 weighted performance points equals 61% of available award fee. Award fee recommendation: \$1,586,000 (61% of \$2,600,000).

23. Example - Changes in Emphasis

If the Government's relative priorities change as work progresses from one phase into the next, or as unexpected problems or developments occur, such as schedule slippages, the evaluation plan may be revised on a unilateral basis, to communicate such changes to all parties. The following example illustrates how the Government can adjust evaluation weights to redirect contractor emphasis to areas needing improvement and the effect of that readjustment on earned award fee.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	1	2	3	4	Total
Allocation (%)	24%	18%	18%	40%	100%
Allocation (\$)	\$120K	\$90K	\$90K	\$200K	\$500K

Evaluation Period 1:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.42	x	91 (Excellent)	=	38
Project Mgmt	.32	x	73 (Good)	=	23
Cost Control	.26	x	0 (Poor/Unsat.)	=	0
			Total		61

The contractor earns \$73,200, 61% of \$120,000.

Evaluation Period 2:

If factor weights were adjusted to increase the emphasis on cost control and its performance, and thus its performance points, remained basically the same, this would be the result:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	0	=	0
			59	=	0

The contractor would receive an award fee score of 2 percentage points less in the second period than it would have if the factor weights had not changed. As a result, the contractor would receive an overall score of Poor/Unsatisfactory and no award fee for the second period.

Now, assume that the contractor responds to the shift in emphasis by improving its performance in cost control from Poor/ Unsatisfactory to minimally satisfactory, without reducing its score in any other area, as follows:

Factor	Weight	x	Performance Points	=	Weighted Performance
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					Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	61	=	17
					76 (Good)

By increasing its performance in cost control by 31 points (from 30 to 61) - and as a result, it's total score by 17 percent to Good--the contractor is now entitled to receive an award fee payment.

If the cost control weight had not been increased in the second period, the contractor would have continued to be paid fee (61 percent of \$90,000 or \$54,900) for unsatisfactory cost control performance. By changing the factor weights to put more emphasis on cost control, the contractor is either rewarded for improved cost control with more fee than it would have received had the weights had not been changed (76% of \$90,000 or \$68,400) or penalized for not showing improvement in that area (59 percent = no award fee payment for the period).

24. Communication

A properly structured and administered award fee contract provides effective communication among Government and contractor personnel at management levels, where decisions can be made and results achieved. A post-award conference is one way to establish communication channels early and to ensure key Government and contractor personnel understand their responsibilities. Attendees should review and discuss the performance evaluation plan and contract requirements. Frequent and honest communication is essential, both between the Government and contractor and within their respective organizational frameworks. Both Government and contractor personnel should be encouraged through the award fee process to identify potential problems as promptly as possible (as opposed to withholding such "bad news" for fear it might result in unfavorable criticism).

25. Contractor Input

The contractor may be allowed to furnish a self-assessment of its performance. Once the PEB report is prepared, the PEB may also allow the contractor to comment on the draft report. Contractor participation at this point ensures all pertinent data has been considered and no factual errors were used as a basis for decisions. Such communications, however, must not result in negotiation of award fee ratings. The ratings should be fair and reasonable, but are ultimately a unilateral Government determination. Throughout the period of performance, the contractor may be permitted to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels, both parties should recognize that frequent, less formal discussions are valuable in ensuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that constrain information sharing and other communications needed for successful joint problem solving.

26. Timeliness

The timeliness of award fee evaluations is critical. Long delays minimize any benefits from periodic evaluations and reports. Unless evaluation results are transmitted timely and award fee payments made promptly, the results and payments may not have the desired influence on the contractor's performance during subsequent evaluation periods. The timeliness of changes in the evaluation plan is also important. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

27. Documentation

Performance monitors should consider the following when preparing their reports. These questions can help assure evaluation data are complete and accurately assess how well the contractor performed in the monitors' assigned areas during the period.

- What (in the monitor's area) was the contractor supposed to do during the period? What was actually accomplished?
- How critical are the efforts accomplished, or not accomplished, by the contractor?
- What was the impact of any efforts completed early or late? How critical was the time frame involved?
- How well did the contractor perform the tasks that were accomplished?
- What are the major strengths and weaknesses (in sufficient detail to discuss with the contractor)?
- Were any Government-directed changes made or did any obstacles arise which impacted performance? What corrective actions were implemented? How effective were they?
- Has the contractor efficiently and effectively used available resources (e.g., personnel and facilities) to improve its performance?
- Has the contractor's performance been clearly assessed in regard to all tasks and specific objectives?
- On level-of-effort contracts, what has the contractor accomplished for the dollars spent (The emphasis here is to reward the contractor for accomplishments, not to reward the spending of dollars.)

The reporting formats used by monitors should be structured to ensure accuracy and clarity. Where possible, several evaluation parameters may be consolidated in a single format. Consistency can be achieved by using the same general format for all closely related work at a given activity. However, caution is required here. Carefully tailored evaluation plans can be compromised by inflexible and ill-conceived rating formats. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments provide detailed, pertinent information not addressed in the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way. These comments also discuss the contractor's efficiency in managing assigned personnel and other resources. Enough detail should be included in reports to the PEB to ensure that their findings and recommendations are accurate and fair and can be supported to the FDO.

Appropriate documentation is vital to support the PEB's recommendations, particularly when these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor and the consideration given to all such information. Since the evaluation is a judgment based upon all pertinent information, that information needs to be identified, discussed and substantiated in the documentation. The FDO will want to review the documentation to satisfy any concerns regarding contractor performance before deciding whether to accept the recommended award fee or some higher or lower amount. Examples of what the FDO might look for include:

- The facts that led to the assignment of a poor/unsatisfactory rating in any subfactor;
- The rationale for a poor/unsatisfactory rating as opposed to a satisfactory rating; and
- The circumstances under which a poor/unsatisfactory level was achieved and the relationships, if any, between it and any excellent performance levels reported for other subfactors.

Sufficient documentation should be provided to the FDO on which to base a decision and to explain that decision to the contractor. Similarly, the FDO must document the basis for the determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions or an award fee determination different from that recommended by the PEB. Documentation of interim ratings may be less detailed since they will be superseded by the final rating at the end of the contract.

28. Payment

Final award fee payments and interim payments against interim evaluations should be made generally within 60 days after the end of the evaluation period for which payment is being made.

When the total rating for an evaluation period is "poor/unsatisfactory," no award fee is paid for that period. For example, a total award fee rating of 57 ("poor/unsatisfactory") would yield an award fee of zero, not 57 percent. For certain contracts involving delivery of a final product, such as hardware, design or study, no award fee will be paid for a final evaluation rating of "poor/unsatisfactory." In these cases, any provisional award fee payments made as a result of "satisfactory" or better ratings (61 and above) on interim evaluations are to be repaid by the contractor.

The amount of interim award fee paid each period will not exceed the interim evaluation score (applied as a percentage) or 80 percent of the award fee allocated to the period, whichever is less. No further award fee payments will be made when the CO determines that the total amount of interim payments made to date will substantially exceed the amount which would be paid based upon the anticipated final evaluation score. The PEB should be notified of such a determination. The CO's determination should be based on a comparison of award fee amounts paid to actual evaluation scores to date, projected future scores based on a combination of past performance trends and any known data which might have an influence on future performance, and any other pertinent data. Stopping award fee payment serves two purposes: it ensures that contractors will not receive award fee which they have not earned and to which they will ultimately not be

entitled, and it minimizes the award fee that will be owed the Government by the contractor at the end of the contract.

29. Provisional Payments

Long evaluation periods may require FAA to make award fee payments more frequently than at the end of each evaluation period. These provisional payments, representing a percentage of the award fee amount allocated to each evaluation period, are made at regular intervals during each period. They are superseded at the end of each period by the interim or final award fee determination amount. The percentage of allocated award fee to be paid provisionally will be stipulated in the contract and may not exceed 80 percent of available award fee in any period.

Provisional payments are discontinued during any period in which the Government determines that the total provisional payments made during that period will substantially exceed the amount which would be paid based upon the anticipated evaluation score for the period. In the event the amount of provisional payments made exceeds the amount of the award fee determination for that period, the contractor will either credit the next payment voucher for the amount of the overpayment or refund the difference.

30. Contract Termination

If a contract with award-fee is terminated for convenience after the start of an award-fee evaluation period, the earned award-fee amount should be determined by the FDO using the normal award-fee evaluation process. The remaining available award-fee dollars for all subsequent evaluation periods should not be considered available or earned and, therefore, should not be paid.

END
